

MINISTRY OF ECONOMY,  
LABOUR & SOCIAL POLICY OF POLAND

# **POLAND 2003**

**REPORT**

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**WARSAW 2003**

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*LADIES AND GENTLEMEN!*

*The year 2003 brought about some important changes. It was not only because a new entity was created – the Ministry of Economy, Labour and Social Policy. It combines two former Ministries – Ministry of the Economy and Ministry of Labour and Social Policy and has significantly changed functions. More importantly, the course of the year confirmed the symptoms of economic revival, which have appeared already in the second half of 2002.*

*Today, at the end of 2003, we are certain that the economic growth in Poland accelerated significantly. The task of the government is to create appropriate conditions and instruments, to make this growth durable and even higher in the following years.*

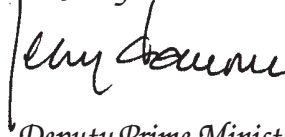
*It must also be stressed that this is the last year before accession to the European Union, which would pose new challenges for entrepreneurs. To take up these challenges, it is necessary to improve competitiveness of businesses, develop modern structures based on knowledge and innovation and to develop entrepreneurship.*

*The government has undertaken numerous measures to facilitate the operations of businesses and to improve their financial situation. This includes a reduction of tax rates for 2004 and a draft law on freedom of business, passed to the Parliament. The law introduces measures that facilitate the setting up and operation of businesses.*

*High level of unemployment remains a very serious problem for Poland. An effective measure to reduce it will be high economic growth – which should occur over the coming two years, supported with appropriate structural policy. I believe that these plans are implemented, which would lead to an increased demand for labour, and as a result, to unemployment curb.*

*The Reports should allow You to get a closer view on the economic and social issues of Poland during the past two years.*

*Jerzy Hausner*



*Deputy Prime Minister*

*Minister of Economy, Labour and Social Policy*

*Warsaw, October 2003*



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# SYNTHESIS

The year 2002 was another year of low economic growth. Gross Domestic Product rose by 1.4%, compared to 1.0% in 2001. The course of economic processes during the year was quite different. In 2001, the rate of economic growth was gradually reduced, quarter to quarter (2.2 in the first quarter, 0.9% in the second quarter, 0.8% in the third quarter and 0.2% in the fourth quarter). Conversely, in 2002 it has shown a systematic increase (0.5% in the first quarter, 0.9% in the second quarter, 1.8% in the third quarter and 2.2% in the fourth quarter). Thus the power of the individual factors determining economic growth rose systematically, contrary to the situation of 2001. As the trend continues, it can be considered as forecast for gradual acceleration of economic growth also in 2003. During the 1<sup>st</sup> half of 2003, GDP rose by 3.0%, compared to 0.8% in the same period of the previous year. According to forecasts, Gross Domestic Product at the end of 2003 can amount to 3.2 – 3.5%.

Economic processes in Poland in 2002 were determined by both external and internal conditions. From among the first group, one of the most important factors influencing the development of Polish economy was the worse situation in the countries of the European Union. This is due to the strong ties between Poland and the EU, and especially Germany – Poland's largest commercial partner. In the countries of the European Union, the economic growth rate dropped from 1.7% in 2001 to 1.0% in 2002; and in Germany from 0.6% to barely 0.2%.

The worse economic situation in the European Union caused a slightly weaker than average growth rate of export to these countries, measured in US dollars (growth by 12.8%, while overall export rose by 13.6%). Export to Germany suffered the most (reduction from 12.4% in 2001 to 6.7% in 2002).

As domestic investment demand diminished, export in 2002 was the main stimulus for the Polish economy – similarly as during the previous year. This role continues into 2003. According to preliminary data of the Central Statistical Office (CSO), during the 1<sup>st</sup> half of 2003, export measured in Polish PLN in fixed prices was higher by 20.5% compared to the same period of last year. Measured in USD, the increase amounted to 26.9%.

**Changes of the internal economic conditions** caused a slight growth (barely 0.4 percentage point) of GDP, achieved in 2002, to be a function of varied dynamics of its individual components – both from the perspective of creation and distribution of GDP.

In terms of creation of GDP, its increase was due to the accelerated growth of value added in the area of market services (by 3.4%, compared to 2.7% in 2001), its lower growth in industry (by 1.0%, compared to a decline by 0.3% in 2001); and slower than a year earlier decline of gross value added in the construction sector (-7.5%, compared to -7.9% in 2001).

In terms of distribution, the 2002 growth of Gross Domestic Product occurred as a result of an overall increase in consumption (from 1.7% in 2001 to 2.8% in 2002). Individual consumption rose from 2.0% to 3.3%. Decline of accumulation was also lower than last year (by 6.9%, compared to 12.6% in 2001). Of this, gross investment outlays on fixed assets dropped by 6.8%, compared to 8.8% in 2001.

Among internal conditions, consumer demand exerted the strongest positive influence on the growth of GDP in 2002. Accelerated growth of consumption determined the increase in overall domestic demand, by 0.9%, compared to its decline by 1.7% in 2001. In 2003, the influence of consumer demand on economic growth remains positive, despite its slight reduction compared to the same period of the previous year. During the 1<sup>st</sup> half of 2003, total consumption increased by 2.0%. Of this, individual consumption rose by 2.6%, while total domestic demand rose by 2.1% (compared to 0.5% during the 1<sup>st</sup> half of 2002).

**The labour market. The situation in the labour market deteriorated further** in 2002. The number of employees in the national economy and the volume of average employment continued to decrease. A further increase in the number of unemployed and unemployment rate was recorded, however, their scope was slightly smaller than during the previous year.

The average number of employed reached 14.8 million people during the year, and dropped by 0.9% compared to 2001 result. This was the fifth subsequent year during which the number of employed in the Polish economy continued to decrease. This means that since 1999 the labour factor **influences economic growth only with the increase in labour effectiveness**. Labour effectiveness, measured as GDP per 1 employed rose in 2002 – according to estimates – by 2.3%, compared to 1.6% in 2001, and 6.4% in 2000. As a result of the overall reduction in the number of employed in the national economy, the **number of jobless persons keeps rising**.

At the end of December 2002, the labour offices had 3,217.0 thousand registered **unemployed persons** (of this, 1,645.8 thousand women). In 2002, the number of unemployed rose by 101.9 thousand persons – by 3.3%, compared to 2001. An increase in the number of unemployed was registered in 11 provinces.

The largest increase occurred in the Pomorskie Province – by 9.1%, and in Zachodniopomorskie Province – by 8.2%. In five provinces, the level of unemployment dropped. The most significant reductions occurred in the Podkarpackie Province, where unemployment decreased by 3.9%, and in Małopolskie – by 2.3%. Of the total number of unemployed, 41.7% are residents of rural areas.

The unemployed registered in labour offices constituted, at the end of December 2002, 18.0% of the civil, professionally active population (compared to 17.5% a year ago). Unemployment continued to vary significantly across regions. At the end of December 2002, it ranged from 13.9% in the Małopolskie and Mazowieckie Provinces to 28.8% in the Warmińsko-Mazurskie Province.

At the end of 2002, 2,678.3 thousand persons had no right to unemployment benefits (compared to 2,490.8 a year earlier). Their share in the total number of registered unemployed rose from 80.0% to 83.3%.

The situation in the labour market remained difficult also during the 1<sup>st</sup> half of 2003. In the group of enterprises with more than 49 employees, average employment dropped by 2.9%, compared to the 1<sup>st</sup> half of the previous year. The rate of registered unemployment improved very slightly, by 0.3 percentage point, reaching the level of 17.7%.

**Increase of salaries, retirement pensions and disability benefits.** **The average monthly effective gross salary in the national economy** rose in 2002 by 2.4%, compared to 2.5% in 2001. In the enterprise sector, the growth was smaller - it reached 1.1%, compared to 1.6% in 2001.

The average monthly effective retirement pension and disability benefit from the non-agricultural system of social insurance rose by 4.6% in 2002, compared to 4.7% in 2001.

**Prices – inflation.** The average annual growth of the Consumer Price Index in 2002 (1.9%) was lower by 3.6 percentage point than in 2001 (5.5%); and by 0.4 percentage point lower than its value written into the budget law (2.3%).

The increase of the Consumer Price Index, calculated December to December, was also much lower than during the same period of the previous year (0.8% compared to 3.6% in 2001). The weaker dynamics of prices in 2002 was due mainly to the decrease of the prices of food and non-alcoholic beverages; and to the much smaller than a year earlier increase of housing-related charges.

In 2002, the prices of industrial production, as well as construction and assembly production have shown a much smaller dynamics than a year earlier.

The growth of the Producer Price Index amounted to 1.0%, compared to 1.6% in the previous year. A decrease of prices was registered in production activity (by 0.1%, whereas in 2001 the decline amounted to 0.2%). According to preliminary estimates, prices of construction and assembly production rose by 1.2%, while their growth in 2001 amounted to 3.8%.

The counter-inflationary tendencies in the economy remained strong also in 2003. In the period January – June 2003, Consumer Price Index rose slightly slower than a year earlier (0.8% compared to 1.1%). The prices of sold industrial output, similarly as a year earlier, rose by 1.1%; while the prices of construction and assembly production dropped by 0.7%, compared to their growth of 0.7% a year earlier.

**Investment outlays, inflow of foreign capital.** In 2002, the total investment outlays in the whole economy (expressed in fixed prices) were lower by 10.0%, compared to the results of last years. The outlays for fixed assets dropped by the same value. Among the latter ones, a lower decline was registered in investment outlays for buildings and constructions (by 8.6%). Outlays for machinery, technical equipment and tools dropped by 9.0%, and into transport means by 19.9%, compared to the previous year.

The share of private entities in the total investment outlays in 2002 remained on the same level as in 2001, and amounted to 68.1%.

In 2002, 44.8 thousand of new investment projects were commenced. This is 35.6% more than during the previous year. However, the **total estimated value of commenced projects** reached only 19.4 billion PLN, and was lower by 19.5%, compared to the results of 2001.

**Enterprises with more than 49 employees** saw a decline in investment outlays deeper than the total economy. Measured in current prices, this decline amounted to 16.6%, compared to 13.4% in 2001. In industrial enterprises, investment outlays dropped by 1.5%. In the production activity section, they dropped by 1.7%; and in the production and supply of electric energy, gas and water by 2.6%.

In the mining and quarrying sector, investment outlays rose by 4.7%.

According to estimates of the Polish Information and Foreign Investment Agency (PALiZ), in 2002 Poland received 6,064 million USD worth of **foreign direct investment** whose unit value exceeded 1 million USD. This is 1,083 million USD less (21.7%) than in 2001; and 4,537 million USD less (43.8%) than in the record year 2000, when the total sum of FDI reached 10,601 million USD. This decline is

due to the decreasing privatisation potential of state-owned enterprises; and also to the reduced investment attractiveness of Poland, due to the worse macroeconomic development indicators. The worse economic situation in the countries of the European Union also played its role.

The cumulative value of direct foreign investment in Poland, measured since the beginning of the 1990's, rose to 65.11 billion USD in 2002. Expressed per capita, the value of FDI rose to about 1,686 USD. Investments with unit value exceeding 1 million USD reached the level of 61.45 billion USD; while investments of less than 1 million USD have been estimated by the PAIIZ at almost 3.67 billion USD.

In 2002, predominant proportion of investments was realised in the area of production activity (34.3% of the total value of executed investments, the share rose, compared to 2001, by 6.7 percentage point). The second largest volume of investments was made in the sector of commerce and repairs (17.4% – a decline of more than 17 percentage points); and the third largest – financial services (15.7%, a decline of 11 percentage points).

**The development of the Polish economy in 2002, similarly as during the previous years, was not adequately supported by the results of scientific and research & development works of the domestic scientific and research organisations.**

This situation was due from the general weakness of these organisations, their poor ability to self-finance their activity and innovative projects by obtaining private and public funds, or foreign capital. The Polish scientific and research entities have functioned for many years in a situation of significant financial difficulties, and insufficient support – both from the state budget and the economically weak businesses.

Moreover, they cannot always hope for contracts from foreign enterprises operating in Poland, as the operations of such businesses is usually based on the results of scientific and research works conducted in their countries of origin.

In order to influence the course of economic and social processes to make it follow the main programme assumptions, the government used (with varied effect) a wide scope of **economic instruments** (regulated prices, taxes and charges, custom duties, guarantees and pledges of the State Treasury, government credits to finance the export of goods and services, subsidies to the interest rate of export credits, etc.).

The goal was also supported with **public aid** of horizontal and sector nature, granted to enterprises usually in the form of state target subsidies, meant to overcome the barriers that the enterprises meet in their activity and to improve their competitiveness in international markets.

As public aid is usually contrary to the concept of economic freedom, and the rules determining the functioning of the free market, its scope is being gradually reduced. According to the estimates of the Office for Competition and Consumers Protection, in 2002 the scope of this aid was reduced by about 8%, compared to 2001<sup>1)</sup>. Of this, the aid granted directly by the Ministry of Economy, Labour and Social Policy was reduced by about 22%.

**Changes in the organisation and ownership structure.** At the end of 2002, the Polish economy had 3,468,218 registered business entities – 4.3% more than at the end of 2001. According to the national system of statistical information REGON, 120,593 entities operated in the public sector (8.7% more than in the previous year); and in the private sector - 3,347,625 businesses (4.1% more than at the end of 2001). The changes in ownership of businesses, occurring during the whole course of the economic transformation, caused deep changes in the structure of the economy. Its current shape is the result of both the increase in the number of business entities, and the changes in their organizational and ownership structure. As a result of the privatisation processes, the number of state-owned enterprises is declining. From 1997, the number of cooperatives is also gradually decreasing. At the same time, the number of various companies (especially commercial ones), foundations, associations and social organisations, and businesses owned by individuals (the largest group) is constantly rising. At the end of 2002, there were 2,714,118 businesses owned by individuals registered in Poland – 9.4% more than at the end of 2001.

From 1990 to 2002, the privatisation process covered 6,982 state-owned enterprises. Of this total number, 22.0% were commercialised; 28.6% privatized directly; 25.7% liquidated for economic reasons, and 23.7% were the former state farms, passed into the Stock of the State Agency of Agricultural Property.

From among the 1,535 enterprises subjected to the commercialisation process, until the end of December of 2002, 1,521 enterprises were transformed into single-

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<sup>1)</sup> See the "Report on public aid granted to entrepreneurs in Poland in 2002", the Office for Competition and Consumers Protection, Warsaw, August 2003.



owner companies of the State Treasury. 14 enterprises were commercialised with conversion of their liabilities. From the total number of the remaining single-owner companies of the State Treasury, 512 entities were contributed into the National Investment Funds; and 330 were privatised in the indirect (capital) manner.

Direct privatisation included 1,998 state-owned enterprises. Privatisation processes were completed in 1,911 enterprises – 95.6% of all entities privatised in this manner. The most frequently used method for disposing of the assets of privatised enterprises was to give them into paid usufruct for the companies established by former employees of the given enterprise.

Due to their bad economic condition 1,795 state-owned enterprises were liquidated. Liquidation processes were completed in 852 enterprises, which constituted about 47% of all enterprises undergoing liquidation.

According to the data of the CSO<sup>2)</sup>, at the end of 2002 Poland had still 1,411 functioning state-owned enterprises. In more than half of them (54.1%) bankruptcy procedure or liquidation process were ongoing, due to bad economic situation. In 17.9% of entities, no actions whatsoever were undertaken in order to reorganise the enterprise; and only 2.7% were in the course of direct privatisation.

**Agriculture.** In 2002, the main factor shaping the situation in agriculture was the high supply of grain, which exceeded demand. Other important factors included the higher number of pigs (due to the improved profitability of the fattening of pigs, commenced in 2001); and an increase in poultry production, while the number of cattle dropped.

According to preliminary estimates of the CSO, global agricultural production in 2002 was lower by 1.8% than in 2001. This decrease was the outcome of a significant reduction in plant production, by -8.7% compared to the previous year. It was due mainly to low crops of rye and grain mixes, potatoes, rape and oil-yielding rape, as well as vegetables and fruit. Meanwhile, animal production increased by 5.7% compared to 2001, mainly due to an increase in the production of pig and poultry livestock. It was 8.7% higher than in 1995.

Development of agriculture in 2002 was negatively influenced by the worsening economic conditions for the animal and plant production – decline in the prices of grain, potatoes, milk, live cattle, pigs and poultry. As a result, the average prices of

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<sup>2)</sup> See "Privatisation of state-owned enterprises in 2002. Information and statistical reports" CSO, Warsaw, 2003, page 26.

agricultural products sold by individual farmers dropped in 2002 by 7.7%, while the prices of goods and services purchased by these farmers dropped by 1.6%. This caused a decrease of the general ratio of the prices of products sold to prices of products purchased, to 90.8%, compared to 98.1% in 2001.

**Industry.** According to estimates of the CSO, **sold industrial output** in 2002 was higher by 1.4% than during the previous year. The share of the private sector in the sold industrial output rose from 75.3% in 2001 to 77.6% in 2002. In enterprises with more than 9 employees, the sold industrial output was higher by 1.5% than in 2001. Labour effectiveness, given the decrease of average employment by 5.6%, rose by about 7.5%. After a decline in production in the first quarter and the second quarter (by 1.6% and 0.4%, respectively), in the following two quarters a gradual increase was registered (by 3.3% in the third quarter, and by 4.6% in the fourth quarter). The increase of industrial output, compared to the results of the previous year, was due to higher sales in production activity (by 1.9%). In the mining and quarrying sector, production dropped by 3.4%. Production decreased also slightly in the section of production and supply of **electric energy, gas and water (by 0.2%)**.

In the area of production activity, production results improved mainly in enterprises manufacturing consumer goods (by about 5%, compared to about 3% in 2001). The decrease of production in enterprises manufacturing primarily investment goods was much smaller than in 2001 (about 1%, compared to about 7% a year earlier). The level of production in enterprises manufacturing mainly goods for intermediate purposes did not undergo any significant changes, compared to the level of 2001 (increase of 0.5%).

**In the structure of sold industrial output** (calculated in current prices), the share of production activity rose from 82.8% in 2001 to 83.1% in 2002. The section of production and supply of energy, gas and water increased its share from 11.8% to 11.9%. The share of the mining and quarrying sector went down, from 5.4% to 5.0%. The share of sections and groups of industry which are considered the drivers of technical progress in the total value of sold industrial output, generated by enterprises with more than 49 employees, reached 12.4%, compared to 12.2% in 2001.

A higher than in 2001 level of sold industrial output was achieved in 19 out of 29 sections of industry. Sales were lower than a year earlier in 10 sections of industry. Their total share in the value of industrial production reached **31.7%**.

In 2003, the growth in sold industrial output accelerated significantly. Enterprises with more than 9 employees increased their sold output by 6.7% during the 1<sup>st</sup> half of this year. An increase of production was recorded in the area of production activity (by 8.1%) and in the supply of electric energy, gas and water (by 2.5%). In the mining and quarrying sector, production dropped by 5.7%. Labour effectiveness, measured as sold output per 1 employee, rose during the 1<sup>st</sup> half of the year by about 10%, while average employment decreased by 3.2%. The share of sections and groups of industry which are considered the drivers of technical progress in the total value of sold industrial output, generated by enterprises with more than 49 employees, rose (in current prices) from 12.3% in the 1<sup>st</sup> half of 2002 to 13.2% in the 1<sup>st</sup> half of 2003; and the level of their production was higher by 17.1% than a year earlier.

**Construction.** After ten years of a steady increase, 2002 was the second subsequent year during which a decline was registered in the construction and assembly production, realised by domestic companies. According to estimates of the CSO, construction and assembly production (including production of enterprises with less than 9 employees) was lower by 8.7% than in 2001. In 2001, the decline was larger, amounting to 11.7%. In the public sector, production dropped by about 15% (compared to a decline of 32.1% in 2001); and in the private sector – by 8% (compared to 10.9% in the previous year). The share of the private sector in the total value of the construction and assembly production reached about 98%, compared to 97.3% in 2001.

Recession in construction continued into 2003. The construction and assembly production, realised in Poland during the 1<sup>st</sup> half of the year by enterprises with more than 9 employees, was lower by 14.0%, compared to the same period of the previous year.

**Housing construction.** According to preliminary data, 97,595 residential units were completed in 2002. This is a decline of 7.9%, compared to the previous year. The largest decline in the number of units occurs in the section of cooperative housing – by 40.4%, to 15,406 units.

In the section of buildings for sale or rental, 21,970 units were completed (25.3% less); and in the social rental housing – 4,653 units (31.2% less).

An increase in the number of completed units was registered in the individual construction sector, where 52,433 residential units were completed (an increase of 29.0%); and in municipal sector – 2,525 (an increase of 8.9%). According to

estimates of the CSO, in December 2002 698.2 thousand units remained under construction. This was 2.9% less than a year earlier.

**Internal Trade.** According to preliminary data, the total volume of retail sales in 2002 was higher by 1.1% than during the previous year.

Commercial and non-commercial enterprises with more than 9 employees have registered a sales increase of 1.6% in 2002. Their share in the total sales value reached a level slightly higher than in 2001, and amounted to 52%. Wholesale sales in commercial enterprises with more than 9 employees were higher by 9.4% (in current prices) than a year ago.

The share of the private sector in the total value of wholesale sales reached 94.1%, compared to 93.4% in 2001.

During the 1<sup>st</sup> half of 2003, a visible acceleration of retail sales was recorded (by 6.0%, compared to the same period of the previous year).

**Foreign trade.** According to customs statistics (SAD documents), in 2002 the value of export from Poland reached 41.0 billion USD, and import amounted to 55.1 billion USD. The negative trade balance amounted to 14.1 billion USD, which was similar to the result of 2001. Export, expressed in USD, rose by 13.6%, and import by 9.6%.

Expressed in euro, export amounted to 43.5 billion euro, and import 58.5 billion euro. Compared to 2001, export rose by 8.2% and import by 4.4%. The negative balance amounted to 15.0 billion euro, compared to 15.8 billion euro a year earlier. In turnover with countries of the EU, export rose by 7.5%; and import by 4.9%. The increase in foreign commodities exchange continued into the 1<sup>st</sup> half of 2003. Export, expressed in USD, rose by 26.9%, and import by 20.4%.

The negative trade balance reached 6,851.0 million USD and was lower by 12.9 billion USD than during the 1<sup>st</sup> half of 2002.

**According to the payment statistics of the NBP**, the payments for commodities in 2002 were more positive than during the previous year. Export revenues amounted to 32.9 billion USD, which was an increase of 2.6 billion, or by 8.8% compared to 2001. Payments for import rose to 43.3 billion USD – an increase of 1.3 billion USD, or by 3.2%.

As a result of the improvement in the balance of payments for commodities, as well as the balance of transfers, the current accounts deficit went down from 7.2 billion USD in 2001 to 6.7 billion USD in 2002, which constituted about 6.5%. Its ratio to Gross Domestic Product dropped from 3.9% in 2001 to about 3.6% in 2002.

An important influence on the balance of foreign trade payments in 2002 was exerted by:

- positive changes in the terms of trade. This ratio increased from 102.3 in 2001 to 102.8 in 2002. In export, transaction prices rose by 4.4%, and in import by 1.6%;
- effective annual depreciation of the zloty in relation to the euro by about 5% (about 60% of Polish commercial transactions are settled in euro);
- reduction of costs, due to higher increase in labor effectiveness than increases of salaries; and
- strong counter-inflationary tendencies in the domestic market.

During the 1<sup>st</sup> half of 2003, the current accounts deficit was further improved. At the end of June, this balance reached a negative value of 2,627 million USD, compared to minus 3,978 million USD a year earlier. The reduction in the overall balance was influenced mainly by the improvement in the balance of non-classified current turnover (by 1,576 million USD) and the balance of current transfers (by 278 million USD).

**The state budget.** In 2002, according to estimate data, the revenues of the state budget amounted to 143.5 billion PLN, expenses to 182.9 billion, and deficit reached 39.4 billion. These values constituted, respectively, 98.9%, 98.8% and 98.5% of the amounts provided for under the budget law (after amendments). The balance of the state budget also worsened. The ratio of deficit to expenses of the state budget increased to 21.5% in 2002, compared to 18.7% in 2001 and 10.2% in 2000.

An unfavourable situation was also registered in other segments of the public finance system, mainly in such target funds as: the Social Security Fund, Labour Fund and the Fund of Guaranteed Employee Benefits. The latter one, upon receiving statutory authority to contract bank credits, became a new source of debt for the public finance sector.

**Public debt.** According to preliminary data of the Ministry of Finance, the debt of the State Treasury reached 326.7 billion PLN at the end of 2002. This was an increase of over 44 billion PLN, compared to the result of 2001. The debt of the State Treasury increased by 15.6% - it was the highest increase during the recent years. In 2001, the growth of public debt was twice smaller and amounted to 6.4%. The ratio of State Treasury debt to GDP amounted to 42.3%, compared to 37.6% in 2001.

If we increase this debt with the estimated payments of State Treasury guarantees and pledges, then its ratio to GDP amounted to 44.2%, compared to 39.1% in 2001.

The growing debt of the State Treasury is due primarily to the increase of domestic debt, from 185.0 billion PLN in 2001 to 219.4 billion PLN in 2002 – by 18.6%. The foreign debt of the State Treasury rose by 9.7% (from 98.9 billion PLN to 108.6 billion PLN).

**Financial results of enterprises.** In 2002, enterprises managing full accounting, with more than 49 employees, obtained slightly better financial results – both gross and net. Their economic effectiveness also improved, while the costs decreased to a larger extent than revenues on overall activity. Despite these positive changes, the overall situation of economic entities remained **difficult**.

The cost level ratio reached 99.3%, which was the same level as in 2001. The ratio of gross turnover profitability amounted to 0.8%, compared to 0.7% in 2001; and the ratio of net turnover profitability -0.2%, compared to -0.3% in 2001. The financial capabilities of business entities deteriorated. The 1st degree liquidity ratio remained on a level similar to last year's – 17.9%; and the 2<sup>nd</sup> degree liquidity ratio reached 72.9%, compared to 76.6% in the previous year.

**Gross financial result** achieved by business entities in 2002 amounted to 7.3 billion PLN. Of this, gross profit reached 36.2 billion PLN, and gross loss 28.9 billion PLN. In 2001, these values amounted to, respectively: 6.4 billion PLN, 31.9 billion PLN and 25.5 billion PLN.

**Net financial result** in 2002 amounted to -2.0 billion PLN (net profit 26.6 billion PLN, and net loss 28.6 billion PLN). In 2001, net financial result reached -2.6 billion PLN (net profit 23.4 billion PLN, and net loss 26.0 billion PLN).

The share of enterprises showing net profits rose from 61.6% in 2001 to 63.5% in 2002. Their share in total revenues increased from 67.7% to 73.3%, respectively. From the perspective of ownership sector, better financial results were achieved by enterprises of the private sector – similarly as in 2001.

The gross turnover profitability ratio in enterprises of the private sector was positive and reached 1.6%, whereas in enterprises of the public sector it was negative, at -1.7%. The respective ratios of net turnover profitability reached 0.5% and -2.5%.

In 2003, the financial situation of enterprises improved significantly. During the 1<sup>st</sup> half of 2003, the gross turnover profitability ratio reached 3.0%

(compared to 1.4% during the same period of the previous year); and net turnover profitability ratio amounted to 1.8%, compared to 0.3% during the 1<sup>st</sup> half of 2002.

**The competitiveness of the Polish economy**, evaluated according to the basic economic indices of 2002 (dynamics of GDP, inflation, Producer Price Index, average employment, unemployment rate, balance of commodities exchange and current accounts balance) was slightly better than in 2001.

However, according to the ranking of the World's Economic Forum, in 2002 Poland held 51<sup>st</sup> place among 80 ranked countries. In 2001, it was ranked at 41<sup>st</sup> place among 75 countries. Taking into account only the 75 countries ranked in 2001, in 2002 Poland would have the 49<sup>th</sup> place. This means that the competitiveness of the Polish economy deteriorated further.

The worst grade was given for the quality of operations of public institutions (61<sup>st</sup> place), only slightly better for macroeconomic environment (54<sup>th</sup> place), and relatively the best one for technology level (36<sup>th</sup> place).

**The development of Polish economy in 2002 was significantly influenced by the intensified integration with the European Union;** and the adaptation of the Polish legal and institutional systems to the mechanisms of the European Union. The Polish nation expressed its will in the accession referendum, held on 7<sup>th</sup> and 8<sup>th</sup> June 2003. 77.6% of the voters voted in favor of Poland's accession to the EU; and 58.85% of eligible citizens participated in the referendum. As a result, on 23<sup>rd</sup> July 2003 the President of the Republic of Poland ratified the accession treaty. On the basis of this treaty, Poland shall become a full-fledged member of the European Union on 1<sup>st</sup> May 2004.

Poland's accession into the European Union should help accelerate its economic growth, modernise the economy and increase its international competitiveness. It should also help bridge the large distance that separates our country from member countries of the EU. When this distance is evaluated from the standpoint of GDP level per capita, measured according to purchasing power parity, we see that 2001 the average value of that ratio amounted to 23,200 USD in the countries of the EU. In the individual countries, it ranged from 15,020 USD in Greece to 44,160 USD in Luxembourg. In Poland, this ratio reached only 9,410 USD, which constitutes 40.5% of the average EU value. It was also strongly varied geographically, among the provinces.



**Threats.** On the basis of the assessment of the current status and the development tendencies of the Polish economy, one sees the following fundamental threats for its development in the near future:

- **high unemployment**, which currently is the crucial social and economic problem. It is also quite possible that the high unemployment rate would not be reduced, as the number of persons reaching productive age still increases, while the processes of economic restructuring are ongoing. The primary condition for the improvement of situation in the labour market is the acceleration of economic growth, especially through the revival of investment processes and through overcoming the negative tendencies in development of construction;
- **collapse of investment processes in the economy.** Gross outlays for fixed assets have not reached the level of the previous year for the second subsequent year. Revival of investment is the key condition for accelerating economic growth, and for making it permanent.
- **the extremely difficult situation of public finances**, and especially of the state budget, which is characterised by the large, and still growing deficit. **Significant increase of public debt**, especially domestic, and the costs of servicing it. Alleviation of threats in this area requires a thorough reform of the public finance system, focused on the rationalisation of budget and non-budget expenses of the state, and on the stimulation of economic growth in this manner;
- **the still large foreign trade deficit.** The years 2001–2002 did bring a slight reduction of this deficit, under conditions of slower economic growth. However, there is no certainty that this tendency would last. The deficit is due to a far-reaching imbalance in foreign trade, which had been cemented by the companies with foreign shareholders, operating in Poland, which import much more goods than they export, and have a decisive influence on the creation of deficit in the foreign commodities exchange;
- **the still poor economic condition of enterprises**, determined to a large extent by an excessively restrictive monetary and fiscal policy. Despite eight reductions of the prime interest rates during 2002, the monetary policy still obstructed the development of enterprises and of the whole economy. Excessively cautious, usually not exceeding 0.25%, reductions of the interest rates, introduced under conditions of low inflation growth, are not effective enough; they do not guarantee sufficient influence of these reductions on the interest rates on credits offered



by banks. Bank credit is too expensive in Poland, which hinders the financing of development processes in Poland.

The main fault of the fiscal policy are the excessive tax charges, levied on the enterprises. The reduction of tax rates, included as one element of the project for repairing the public finance system, may become an important factor stimulating economic growth;

- **insufficient progress in modernisation of production**, in the increase in the number of new and modernised goods, especially the shortage of modern technology products in general industrial production, and in consequence also in export. Unsatisfactory progress in improving competitiveness of the Polish economy.

This is the result of the low outlays into research, development and innovative activities in the industry sector, which have remained low for many years. In this area, it is necessary to re-assess the values of economic policy and to direct it more towards the development of research works and the support for technical progress and innovations in economy.

**Table 1. Basic indicators of the economic situation in 1995–2002 and 1<sup>st</sup> half of 2003 (dynamic presentation, previous year = 100)**

No	Description	Unit of measure	1995	1996	1997	1998	1999	2000	2001	2002	1 <sup>st</sup> half of 2003
1.	Gross Domestic Product (in current prices)	million PLN	308,103.7	387,826.6	472,350.4	553,560.1	615,115.3	684,981.9	750,785.9	772,248.4	382,746.6
2.	Gross Domestic product (in fixed prices).	%	107.0	106.0	106.8	104.8	104.1	104.0	101.0	101.4	103.0
3.	Domestic demand (in fixed prices).	%	107.0	109.7	109.2	106.4	104.8	102.8	98.3	100.9	102.1
3.1.	– individual consumption financed with personal revenues (in fixed prices).	%	103.2	108.7	106.9	104.8	105.2	102.6	102.0	103.3	102.6
3.2.	– gross outlays into fixed assets (in fixed prices)	%	116.5	119.7	121.7	114.2	106.8	103.1	91.2	93.2	97.4
4.	Sold industrial output <sup>1)</sup>	%	109.7	108.3	111.5	103.5	103.6	106.7	100.6	101.4	106.7
5.	Prices of sold industrial output (annual average)	%	125.4	112.4	112.2	107.3	105.7	107.8	101.6	101.0	102.6
6.	Consumer Price Index (average annual)	%	127.8	119.9	114.9	111.8	107.3	110.1	105.5	101.9	100.5
6.1.	Consumer Price Index (dynamics December to December)	%	121.6	118.5	113.2	108.6	109.8	108.5	103.6	100.8	100.8

cont. ➡

<sup>1)</sup> Ratio of production volume and of the prices of sold industrial output from 1996 onwards have been calculated according to base prices in the previous years, on the basis of producer prices.

No	Description	Unit of measure	1995	1996	1997	1998	1999	2000	2001	2002	1 <sup>st</sup> half of 2003
7.	Construction and assembly production (in fixed prices)	%	108.1	104.6	117.1	111.0	109.4	101.4	88.3	91.3	86.0
8.	Completed housing units	thousands	67.1	62.1	73.7	80.6	82.0	87.7	105.9	976	64.1
9.	Total investment outlays (in fixed prices)	%	117.1	119.2	122.2	115.3	105.9	101.4	90.5	90.0	97.8
9.1.	Share of investment purchases in total investment outlays (current prices).	%	46.5	48.1	47.4	47.5	46.5	47.7	47.0		
10.	Gross turnover profitability ratio <sup>2)</sup>	%	4.2	3.4	3.6	2.0	1.1	1.9	0.7	0.8	3.0
10.1.	– of this, industry	%	4.9	3.6	3.7	1.7	0.7	1.4	0.6	1.2	3.9
11.	Turnover profitability ratio <sup>2)</sup>	%	2.0	1.6	1.8	0.6	-0.2	0.7	-0.3	-0.2	1.8
11.1.	– of this, industry	%	2.3	1.6	1.9	0.4	-0.6	0.3	-0.3	0.2	2.4
12.	Export of commodities (customs data)	million USD	22,894.9	24,439.8	25,751.3	28,228.9	27,407.4	31,651.3	36,092.2	41,009.8	23,903.3

cont. ➡

<sup>2)</sup> The gross turnover profitability ratio in the economy and in industry apply to entities with more than 50 workers in the mining and quarrying sector, and production activity; and more than 20 persons in the remaining sections (by the end of 1998). Data for 1999–2000 apply to enterprises with more than 49 workers in all sections of the economy.

No	Description	Unit of measure	1995	1996	1997	1998	1999	2000	2001	2002	1 <sup>st</sup> half of 2003
12.1.	Dynamics (previous year = 100)	%	132.8	106.7	105.4	109.6	97.1	115.5	114.0	113.6	126.9
13.	Import of commodities (customs data)	million USD	29,049.7	37,136.7	42,307.5	47,053.6	45,911.2	48,940.2	50,275.1	55,112.7	30,718.3
13.1.	Dynamics (previous year = 100)	%	134.7	127.8	113.9	111.2	97.6	106.6	102.7	109.6	120.4
14.	Balance of commodities exchange	million USD	-6,154.8	-12,696.9	-16,556.2	-18,824.7	-18,503.8	-17,288.9	-14,182.9	-14,102.9	-6,815.0
15.	Employed in the national economy – annual average	thousands persons	14,735	15,021	15,439	15,800	15,373	15,018	14,924	14,784	
15.1.	Dynamics (previous year = 100)	%	101.8	101.9	102.8	102.3	97.3	97.7	99.4	99.1	
16.	Average employment in the economy	thousands persons	9,360.0	9,479.8	9,751.5	9,863.8	9,637.1	9,354.1	9,050.2	8,915.7	7,341.0
16.1.	Dynamics (previous year = 100)	thousands persons	102.8	101.3	102.9	101.2	97.7	97.1	96.7	98.5	97.1
17.	Number of unemployed (at the end of the period)	thousands persons	2,628.8	2,359.5	1,826.4	1,831.4	2,349.8	2,702.6	3,115.1	3,217.0	3,134.6
17.1.	Dynamics(previous year = 100)	%	92.6	89.8	77.4	100.3	128.3	115.0	115.3	103.3	101.4

cont. ➡

No	Description	Unit of measure	1995	1996	1997	1998	1999	2000	2001	2002	1 <sup>st</sup> half of 2003
18.	Unemployment rate (at year end)	%	14.9	13.2	10.3	10.4	13.1	15.0	17.4	18.0	17.7
19.	Average nominal gross monthly salary in the national economy	zloty	690.9	874.3	1,065.8	1,232.7	1,697.1	1,893.7	2,045.1	2,133.2	2,184.8
19.1.	– in the enterprise sector	zloty	754.2	956.9	1,162.1	1,348.6	1,834.8	2,056.8	2,301.1	2,277.4	2,271.3
20.	Average effective gross monthly salary in the national economy	%	102.8	105.5	105.9	103.3	104.7	101.0	102.5	102.4	103.6
20.1.	– in the enterprise sector	%	103.2	105.8	105.5	103.7	103.0	101.3	101.6	101.5	101.6
21.	Dynamics of labour effectiveness, measured as GDP per 1 employee (previous year = 100)	%	105.1	104.0	103.9	102.4	107.0	106.4	101.6	102.3	
22.	State budget balance	million zloty	-7,448	-9,167	-5,903	-13,193	-12,479	-15,391	-32,358	-39,403	-23,818
22.1.	– as percent of the GDP	%	-2.4	- 2.4	-1.2	-2.4	-2.0	-2.2	-4.3	-5.1	-6.2
23.	Current account balance of the payment balance	million USD	5,455	-1,352	-4,268	-6,858	-11,569	-9,978	-7,166	-6,700	-2,627
23.1.	– as percentage of GDP	%	4.3	0.9	-3.2	- 4.3	-7.5	-6.3	- 3.9	-3.5	-2.6

Source: data of the Central Statistical Office, National Bank of Poland and own calculations.



## METHODOLOGICAL REMARKS

The Ministry of Economy, Labour and Social Policy presents five volumes describing the status of the national economy in 2002, which are:

1. Poland's Report – Economy in 2003,
2. Poland's Report – Industry in 2003,
3. Poland's Report – Foreign Trade in 2003,
4. Poland's Report – Domestic Trade in 2003,
5. Poland's Report – Labour Market and Social Security.

The first four reports are published for the seventh time. This is a continuation of a project managed by the former Ministry of Economy.

The reports, depending on the availability of statistical data, present also information regarding 2003 (the first six months or the first quarter), hence the date "2003" in the Report's titles.

The Minister of Economy, Labour and Social Policy needs a detailed diagnosis of the condition of the economy. The reports form a part of such diagnosis. Each of the reports is a separate document, independent of the remaining ones. The reports are published in two versions: Polish and English. The English translation covers selected, large portions of reports listed under points 1, 2 and 5; and syntheses of reports listed under 3 and 4.

The Report on Internal Trade was prepared by the Institute of Home Market and Consumption, in cooperation with the Ministry of Economy, Labour and Social Policy. The other four reports were prepared by the relevant departments of the Ministry of Economy, Labour and Social Policy.

Source materials, used in the Reports, have been obtained from the Central Statistical Office, the Foreign Trade Data Centre, the National Bank of Poland, the Polish Agency for Foreign Investment (currently the Polish Information and Foreign Investment Agency PAIIZ), the Warsaw Stock Exchange and from other sources.

The information regarding economic and financial results of the economy and industry is based on data from enterprises with more than 49 employees. Some other information (such as the volume of sold industrial output) is based on larger scope of statistical data (entities with more than 9 employees, or all of the business entities operating in the national economy). Such wider scope of information is always marked in the text of the reports.

The economic and financial data, presented in the reports, is based on the F-01 reports of the Central Statistical Office. This data is not final, as the final data (derived from financial statements) is presented in F-02 reports, which are published by the CSO after the preparation of the reports.

Information contained in the reports is organized according to the Polish Classification of Business Activity (PKD), with the use of terms and abbreviations used by the CSO (e.g. the steel or metallurgy industry, instead of 'production of metals').

Symbols used in the text:

- ( – ) – the event was not registered,
- ( . ) – no data available,
- ( x ) – provision of this information is impossible, or irrelevant.



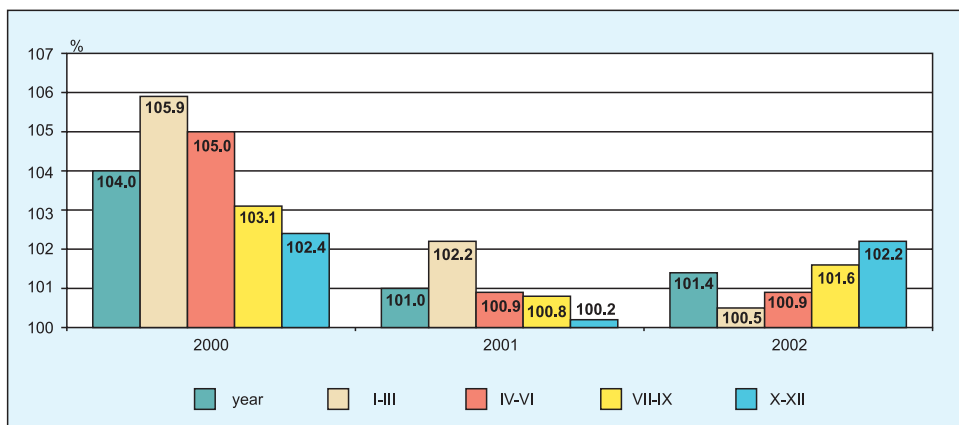
## Chapter 1

# GROSS DOMESTIC PRODUCT AND ITS CHARACTERISTIC

## 1.1. Dynamics of the Gross Domestic Product

After the reduction in the rate of economic growth (from 4.0% in 2000 to 1.0% in 2001), **Poland's economy has been showing symptoms of revival since the second half of 2002.** After the slight increases of the GDP during the 1<sup>st</sup> two quarters of the year, compared to the same periods of the previous year, in the 3<sup>rd</sup> quarter of the effective increase of the Gross Domestic Product amounted to 1.8%. During the 4<sup>th</sup> quarter, the growth of GDP was even stronger (by 2.2%), which allowed the **Polish economy to achieve a growth rate on the level of 1.4% in 2002.** The value of GDP amounted to about 772.2 billion PLN. Converted into US dollars at the official exchange rate, this amounts to 189.3 billion USD; and 4,952 USD per capita. According to estimates, the per capita value of GDP, according to purchasing power parity, amounts to about 11,000 USD.

**Chart 1. Dynamics of GDP in 2000–2002**



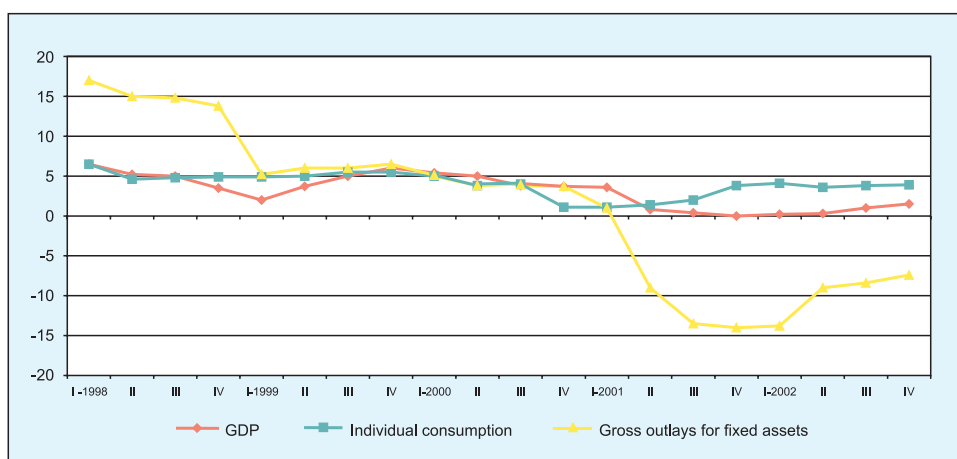
Source: Statistical Bulletin of the Central Statistical Office, May 2003.

**The main factors which stimulated economic development during the past year were: export and individual consumption.** The increase of individual consumption, compared to 2001, amounted to 3.3%. **The share of individual consumption in GDP in 2002 is estimated at about 67.2%, whereas in 2001 it amounted to less than 62.7%.** This change is due both to an increase in consumption and a reduction of investment.

**Gross accumulation dropped by 6.9%. Of this, the value of gross outlays was lower by 6.8% than a year earlier.** The direct reasons hindering investments were: low profitability of enterprises; still relatively high interest rate on bank credits, despite reduction of interest rates introduced by the Monetary Policy Council; as well as the negative economic situation both in Poland and abroad, which deterred domestic and foreign investors. The information on the possible American invasion in Iraq did not serve to improve the mood among investors, either.

The factor which stimulated economic development in 2002 was **export**. This is proven by the information regarding foreign commercial exchange<sup>1)</sup>.

**Chart 2. Gross Domestic Product, individual consumption, gross outlays into fixed assets during 1998–2002**



Source: Statistical Bulletins of the Central Statistical Office, 2000–2003.

<sup>1)</sup> The foreign exchange changes had an important influence on turnover dynamics, measured in USD. It is estimated that the decline in exchange rate of USD to the euro in 2002 caused an increase of the Polish export, measured in USD, by 4 percentage points.

According to the data of the Central Statistical Office, obtained on the basis of customs documentation, export measured in USD grew by 13.6%, while import rose by 9.6%. Measured in euro, export rose by 8.2% and import by 4.4%. Export volume increased by 8.3%, and import volume by 7.3%.

**Table 2. The rate of changes in Gross Domestic Product and gross value added in 1996–2001 (previous year = 100%)**

Description	1996	1997	1998	1999	2000	2001	2002
Gross Domestic Product	6.0	6.8	4.8	4.1	4.0	1.0	1.4
Gross value added	5.3	6.4	4.7	3.7	3.7	1.1	1.4
– industry	7.6	10.3	4.3	3.-0	6.5	-0.3	1.0
– construction	2.8	13.6	9.3	3.5	-0.7	-7.9	-7.5
– market services	5.3	4.4	4.8	6.0	4.2	2.7	3.4

Source: Information of the Central Statistical Office, Warsaw, 24.06.2003

**Gross value added in the national economy in 2002, compared to the previous year, grew effectively by 1.4%. This increase was due mainly to improvement in the activity of the market services sector** (which already accounts for about 50% of total gross value added), **where the value added rose by 3.4%.** This increase was supported by an increase in retail commerce, observed mainly in large stores. **Gross value added rose also in the industry sector, by 1.0%** (compared to a decline of 0.3% in 2001). **In the construction sector, a decline by 7.5% was recorded.**

**Table 3. Domestic demand in 2000–2002 (current prices)**

Description	2000	2001	2002
Domestic demand	760,709.9	778,762.9	798,423.4
GDP	713,390.9	750,785.9	772,248.4
Export	201,507.1	210,585.0	231,327.0
Import	248,853.2	238,562.0	257,502.0

Source: Department of National Accounts and Finances, CSO, June 2002.

**Table 4. Dynamics of the GDP and gross value added in 2001 and 2002, per quarter** (the same quarter of the previous year =100)

Description	Year	I quarter	II quarter	III quarter	IV quarter
GDP	2002	100.5	100.0	101.8	102.2
	2001	102.3	100.9	100.8	100.2
Gross value added of this:	2002	100.5	100.9	101.9	102.1
	2001	102.1	100.8	100.6	100.1
– industry	2002	98.0	99.0	102.7	104.0
	2001	103.7	98.9	98.5	97.9
– construction	2002	86.7	89.1	96.8	94.2
	2001	94.4	91.7	91.5	91.7
– market services	2002	103.7	103.5	103.3	103.0
	2001	102.5	102.5	103.0	102.9

Source: Department of National Accounts and Finances, CSO, June 2003.

## 1.2. The role of individual sectors in generating the Gross Domestic Product

The year 2002 brought some positive changes in the way the GDP is created, in the structure of both the sectors and ownership relations. The sector of market services plays currently a dominant role in the creation of Gross Domestic Product. The share of market services in the gross value added reached 50.3% in 2002. The total share of market and non-market services amounts to 65.8% of value added. The second sector which was the main creator of the value of the GDP was the industry, whose share in value added amounted to 23.8%. During the recent years, the role of the construction sector has been clearly diminishing.

**The increase in the value added of industry in 2002** was tied to higher value added in two of three industrial sectors: industrial processing and the production and supply of electric energy, gas and water.

A decline in production was registered in the mining sector, which is due to the program for restructuring the hard coal mining sector, and closure of mines. This had a direct influence on the decline of gross value added in this section.

The value of sales of industrial output, calculated for all the industrial enterprises, was higher by 1.4% than in 2001. The growth of sold industrial output was accompanied by a high, 3% reduction of employment, which enabled to increase labour effectiveness by 4.5%.

**Gross value added in construction sector** dropped by 7.5%, compared to 2001. After ten years of solid growth, in 2001 the value of construction and assembly production went down by 11.7% compared to the previous year. **In 2002, the poor situation of this sector continued, and decline of production is estimated at 8%.** The lower production was due to the limited demand for both investment and renovation works.

The gross value added of the **agriculture** sector was slightly higher than the 2001 result (by 0.3%). This was due probably to the much lower level of intermediate consumption, as the global agricultural production dropped, according to preliminary estimates, by 1.9% compared to 2001. The decline is due to a reduction in plant production by 8.7%, while animal production rose by 5.7%.

The **market services sector** played a particularly important role in increasing economic development. Its gross value added rose by 3.4%, compared to 2001. During recent years, the development of market services sector is increasingly influenced by retail trade and the development of mobile telephony. The sales of transport services rose by about 3%, and of telecommunication services by almost 9%. The volume of retail sales of large and medium-sized enterprises increased by 1.6%. Turnover in wholesale trade, calculated in current prices, rose by over 9%.

The volume and structure of the Gross Domestic Product was influenced mainly by changes which occurred in **the ownership structure of the Polish economy**. They brought it closer to the countries with developed market economy. In 2002, the share of the private sector in the value of sold industrial output amounted to 77.6%; and to about 98% in construction and commerce. The role of the private sector is increasing also in the areas of investment activity and commercial exchange. Therefore, it is estimated that the share of the private sector in the creation of GDP amounted to about 74% in 2002.

**Table 5. The structure of Gross Domestic Product in 2000–2002**

Description	2000	2001	2002
Total GDP	100.0	100.0	100.0
Gross value added	87.5	87.6	87.3
Agriculture, hunting and forestry	3.1	3.3	2.7
Industry	22.4	21.1	20.8
– mining	2.3	2.1	2.1
– production activity	17.4	15.7	15.2
– production and supply of electric energy, gas and water	2.7	3.2	3.5
Construction	7.2	6.3	5.7
Total services	54.0	56.9	59.8
of this: market services	41.6	42.7	44.0
of this: commerce and repairs	17.7	18.0	18.2

*Source: Statistical Yearbook of the CSO, 2001 p. 546; Department of National Accounts and Finances, CSO, May 2003; Concise Statistical Yearbook 2003; calculations of the Ministry of Economy, Labour and Social Policy.*

### 1.3. Division of the Gross Domestic Product into consumption and accumulation

The cyclical fluctuations of the rate of economic growth depends on the changes in domestic consumer and investment demand, and in the external demand. **The growth of GDP, slightly faster in 2002, compared to 2001, was due primarily to increase in consumption.** Aside from the growth of individual consumption, GDP was stimulated also by good results in export, which grew despite the weak economic situation in countries which are Poland's main trade partners (especially in Germany, where the economic situation is currently bad). The reduction of accumulation continues to exert its negative effect.

In 2002, the growth rate of consumption was higher than in 2001 (2.8%, compared to 1.7% in 2001). Individual consumption rose quicker (by 3.3%, compared to 2.0%) than collective consumption (increase by 1.5%, compared to 0.4%). **It is estimated that revenues achieved outside the registered economy**

**are still on a high level<sup>2)</sup>**. According to preliminary calculations, 2002 was the third subsequent year in which the purchasing power of income obtained from hired labor continued to drop. This was due to a further, significant reduction of employment (in the enterprise sector – by 4.4%, compared to 3.3% in 2000 and 2001). At the same time, the growth of average effective salary was slightly lower than in 2001 (2.4% in the national economy, compared to 2.5% in 2001; and in the enterprise sector, by 1.5% compared to 1.6% in 2001). The increase in the social benefits payments was still high, but smaller than in 2001 (the average effective retirement pension and disability benefit rose by 4.6%).

As consumption grew faster than disposable income, it is possible that the savings of households were reduced. According to preliminary estimates of the National Bank of Poland, the share of savings in revenues (gross savings rate) dropped, from over 10% in 2000–2001, to 7–8% in 2002.

Gross accumulation in 2002 was lower by 6.9% than in 2001 (in 2001, it dropped by 12.6%). The decrease of gross outlays into fixed asset was lower than a year earlier. Investment outlays into current assets also dropped, but the scope of this decline was much lower than in 2001. The process of adapting the current assets to the reduced level of economic activity caused an important change in the structure of accumulation. The share of the increase of material current assets in accumulation dropped from 4–5% in the years 1995–2000 to 0.20.3% in 2001–2002.

After a period of rapid growth of the investment outlays volume, which occurred in Poland in mid-1990's, in 2000 the growth ceased, and in 2001 a deep decline of investment was recorded<sup>3)</sup>. This negative trend continued in 2002, but the decline of enterprises' investments in the 1<sup>st</sup> half and 3<sup>rd</sup> quarter of the year was smaller than in the 4<sup>th</sup> quarter of 2001. **The data, cleaned of seasonal-nature factors, show that the decline in volume of investment outlays was stopped in the 4<sup>th</sup> quarter of 2002.** This is confirmed with information on the growth in cost estimate value of commenced investments.

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<sup>2)</sup> It is estimated that over 14% of the official GDP is generated by the grey economy. This estimate is based on research of business entities, analysis of economic activity of the populations and on questionnaires among consumers, regarding the sources of purchasing goods and services. The largest sources of additional production are the sectors of: commerce and repairs, hotel services and restaurants, and construction.

<sup>3)</sup> which is also due to their cyclical nature.

**Table 6. Dynamics of consumption and accumulation in 2000–2002 (previous year = 100%)**

No	Description	2000	2001	2002
1	Total consumption	102.5	101.7	102.8
	– private	102.7	102.0	103.3
	– public	101.1	100.4	101.5
2	Accumulation	103.9	87.4	93.1
	– gross outlays into fixed assets	102.7	91.2	93.2

Source: Statistical Yearbook of the CSO 2002, p. 559; Information of the CSO, June 2003.

## 1.4. The role of production factors in the growth of GDP

The analysis of the factors determining economic growth can be performed by identifying the role played by individual production factors (capital and labour) and the importance of increase in their productivity.

**Table 7. Factors determining economic growth in Poland (annual changes in %)<sup>4)</sup>**

	1996	1997	1998	1999	2000	2001	2002
GDP ( $\Delta Y/Y$ )	6,0	6,8	4,8	4,1	4,0	1,0	1,4
Labour ( $\Delta L/L$ )	1,9	2,8	2,3	-2,7	-2,3	-0,6	-0,9*
Capital ( $\Delta K/K$ )	4,8	3,5	3,9	3,9	4,2	2,7	1,0*
Labour's influence on growth ( $0,65 \cdot \Delta L/L$ )	1,2	1,8	1,5	-1,8	-1,5	-0,4	-0,6*
Capital's influence on growth ( $0,35 \cdot \Delta K/K$ )	1,7	1,2	1,4	1,4	1,5	0,9	0,4*
TFP( $\Delta A/A$ )	3,1	3,8	1,9	4,5	4,0	0,5	1,6*

Source: CSO, own calculations; \* – preliminary estimates.

Capital was more important for economic growth. The cumulated influence of labor resources was negative. **The main growth factor is the improvement in**

<sup>4)</sup> The analysis is known as Solov's decomposition. Growth rates are recorded as  $\Delta Y/Y = \alpha \Delta L/L + (1-\alpha) \Delta K/K + \Delta A/A$ , where the symbols L, K and A mean, respectively, labour, capital and total productivity of production factors (TFP). The share of labour in the generation of GDP is estimated for Poland at  $\alpha=0,65$ . In the calculation presented here, the change in the average annual number of employees is included as the variance of the labour factor. Change of capital is the increase of fixed assets.



**the total productivity of labour and capital** – which is due to the still increased degree of their usage. The growth dynamics of the total productivity of production factors was relatively high, and quite stable. Similar trends have been observed in 2002. Due to decrease in employment level, the labor factor still had a negative influence on economic growth. This was partly offset by the influence of accumulation of productive fixed assets. The 1.4% growth of GDP was determined by the growth of total productivity of production factors.

## 1.5. Gross Domestic Product per capita in Poland, compared to the results of countries of the European Union and the candidate countries

Despite the low rate of GDP growth in 2001–2002, the value of Gross Domestic Product per capita PLN, calculated in PLN, rose in 2001 by 6%, and in 2002 by 2.9%, compared to the previous years (the growth calculated in USD reached, respectively, 12.5% and 3.3%). The growth of per capita GDP was due to the decreasing number of the country's population.

**Table 8. Gross Domestic Product per capita in 2000–2002**

Units of measure	2000	2001	2002
in PLN	18,524	19,631	20,207
in thousands USD, according to official exchange rate	4,262	4,795	4,953
in thousands USD, according to purchasing power parity	9,600	11,000	

*Source: Statistical Yearbook of the CSO, 2002, pages 531, 704, 707; 2002 – pages 546, 716, 719; calculations of the Ministry of Economy, Labor and Social Policy on the basis of preliminary data of the CSO.*

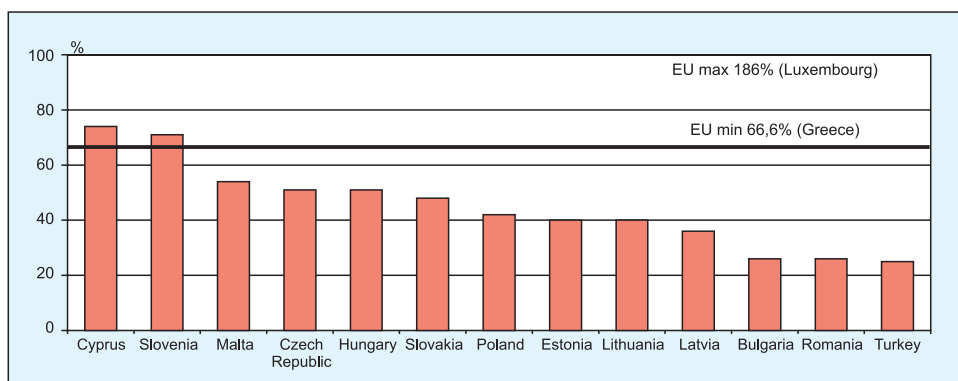
According to the estimates of Eurostat, the per capita GDP in countries-candidates to the European Union, according to the purchasing power parity and compared to the average in member countries of the EU, ranged from 74% in Cyprus to 35% in Latvia. Poland's results are close to the results of the Baltic states, as its GDP per capita did not exceed in 2002 the level of 45% of average in member countries of the EU.

**Table 9. Gross Domestic Product per capita in thousand USD in selected countries in 2001**

No	Country	according to official exchange rate	according to purchasing power parity
1	Austria	23.3	28.2
2	Belgium	22.1	27.7
3	Finland	23.4	26.5
4	France	21.5	26.2
5	Greece	10.7	16.3
6	Spain	14.5	21.4
7	Ireland	26.6	30.0
8	Germany	22.5	26.3
9	Portugal	10.7	17.6
10	Great Britain	24.3	26.3
11	Italy	18.8	26.2
12	Poland	4.6	9.9
13	Czech Republic	5.6	15.1
14	Hungary	5.1	13.4

*Source: National Accounts of OECD countries, Main aggregates, Volume 1, April 2003.*

**Chart 3. GDP per capita according to purchasing power parity in 2002 (average in EU member countries = 100)**



*Source: Key structural challenges in the acceding countries: The integration of the acceding countries into the Community's economic policy co-ordination processes, document Economic Policy Committee.*

## Chapter 2

# FACTORS DETERMINING ECONOMIC GROWTH

## 2.1. Internal and external demand

In 2002, the economy developed slightly faster than during the previous year. However, economic growth was still several times slower than the average value in the 1990's.

**In 2002, domestic demand exceeded the level achieved during the previous year by 0.9%.** Its increase was due to the consumption growth – higher than during the previous years – while accumulation continued to decrease. The relatively high dynamics of consumption contributed to a slight acceleration of GDP growth. The improvement in net export results, registered for the third subsequent year, also had a positive influence on economic growth. Domestic demand was still higher than the Gross Domestic Product.

**Economic processes in Poland in 2002 were determined by both external and internal conditions.** From among the first group, one of the most important factors influencing the development of Polish economy was the bad situation in the countries of the European Union. This is due to the strong ties between Poland and the EU, and especially Germany – Poland's largest commercial partner. In the countries of the European Union, the economic growth rate dropped from 1.6% in 2001 to 1.1% in 2002; and in Germany from 0.6% to barely 0.2%.

Despite these apparently negative circumstances, in 2002 – and particularly during its second half - **a rapid increase in export was recorded<sup>1)</sup>**. This contributed to a growth of consumption and increase in import. Growth of import was slower than growth of export, and as a result, net export increased. Despite these changes, net export still remains negative.

In 2002, the main stimulus behind growth of GDP was the domestic demand. This improvement was due both **to higher growth of individual consumption, and to a lower than a year earlier decline in the value of investment outlays.**

In 2002, the **growth of individual consumption accelerated** (growth of 3.3%), despite the worsening situation in the labor market (the average number of employed in the enterprise sector dropped by 4.4%, while the number of

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<sup>1)</sup> The issue of the influence of foreign exchange rate was discussed in Chapter 1.

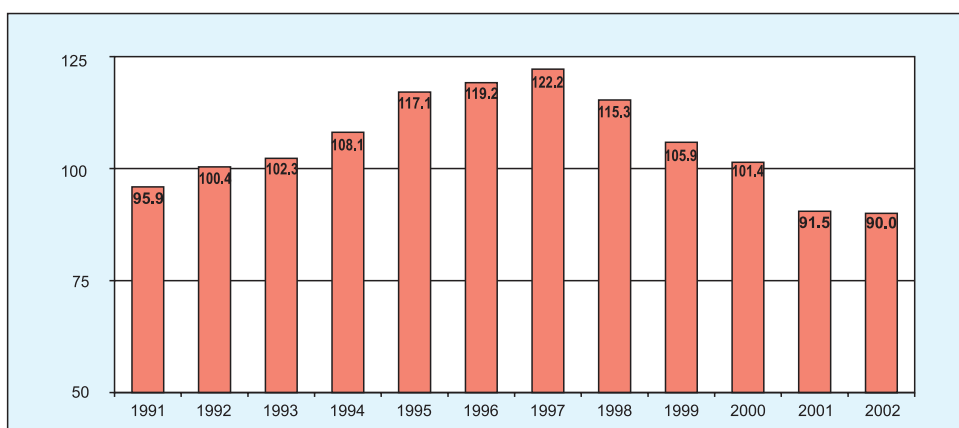
unemployed increased by 3.3%). An increase in consumption was due to the decline in households' propensity for savings (the savings rate dropped to about 8%). The 2002 valorisation of retirement and disability benefits caused an increase in the effective level of social benefits (the effective increase of benefits disbursed under the non-agricultural system of social insurance amounted to 4.6%). A growth of revenues coming from outside registered economy was also observed in 2002. The growth of collective consumption was in 2002 slower than the growth of individual consumption. During the 1<sup>st</sup> half of 2003, the growth rate of individual consumption slowed down (reaching 2.6%), while domestic demand rose by 2.1%, due to increased gross accumulation.

The decline of accumulation in 2002 (by 6.9%) was due primarily to further **reduction of gross outlays for fixed assets** (by 6.8%).

## 2.2. Investment outlays

Investments are the condition for the proper development of the economy, and are necessary to improve the competitiveness of its individual sections. The scope of investment within an economy provides usually a good reflection of its condition and development perspectives (the cyclical nature of investment must be taken into consideration).

**Chart 4. Dynamics of investment outlays (compared to the previous year)**



*The data applies to the full group of entities.*

*Source: Statistical Yearbook of the CSO, 2002; Statistical Bulletin, CSO, March 2003; Concise Statistical Yearbook 2003.*

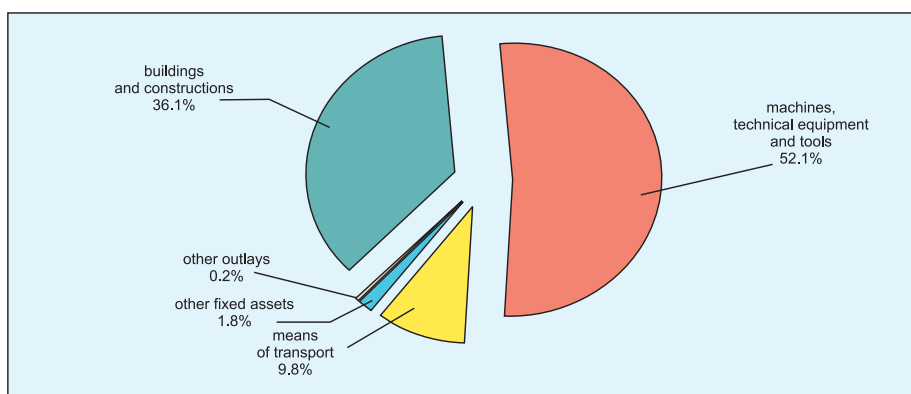
The year 2002 was the second one in a row in which the investment activity of enterprises declined. In 2001, in the full group of economic entities the investment outlays were lower by 9.5% compared to the previous year. In 2002, they were further reduced by 10%. This negative trend was broken in the 1<sup>st</sup> half of 2003. The decrease of investment outlays amounted only to 2.2%.

The main factors which limited the investment propensity of businesses were:

- low effectiveness of business operations, and lack of visible improvement compared to 2001;
- loss of credit capacity by an increasing number of enterprises;
- still high cost of obtaining capital resources;
- uncertain perspectives for obtaining more orders and increasing sales – and in consequence, for chances to improve the economic and financial situation;
- lower than during the previous years influx of foreign direct investment.

Business entities with more than 49 employees saw an even deeper decline of investment outlays, which amounted to: 13.4% in 2001, and 16.6% in 2002. Investments into buildings and construction suffered the largest decline in 2002 – by 23.4%. At the same time, 2002 was another year of decreasing value of investment purchases – by about 12<sup>2)</sup>, and their share amounted to 62% (annual growth of 2 percentage points). The share of **imported machines and equipment**, as part of the investment purchases, rose to 30% in 2002, compared to 24% in 2001.

**Chart 5. Structure of investment outlays per type in 2002 (current prices)**



Source: *Information on the country's economic situation, February 2003, Central Statistical Office, Warsaw.*

<sup>2)</sup> Until 2002, investment purchases were systematically growing, while the value of investment into inactive fixed assets was decreasing.

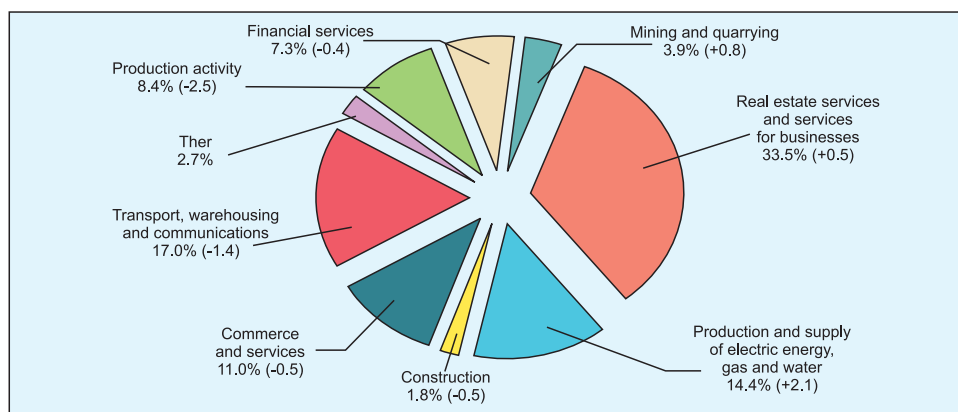
From among the main sectors of the economy, only the mining and quarrying sector achieved a growth of investment outlays in 2002. After a radical reduction of investments in this sector in 2000, an increase of investment by several percent was registered in 2001 and 2002. In other areas of the economy, investment dropped. **The breakdown of investment was seen primarily in construction firms, in entities specializing in services for business, real estate and science,** where the outlays were lower than a year ago by about 35%. The situation in both these sectors seems particularly alarming, as a significant reduction (by over 40%) of investment outlays already took place in 2001.

**Table 10. Dynamics of investment outlays in the individual sectors of the economy in 2002**

Description	Value in PLN million	Dynamics (current prices)
<b>Economy, overall</b>	<b>56,709.8</b>	<b>83.4</b>
<b>Industry</b>	<b>29,324.4</b>	<b>99.2</b>
– mining and quarrying	2,190.0	104.8
– production activity	18,975.7	99.1
– production and supply of electric energy, gas and water	8,158.7	98.0
<b>Construction</b>	<b>997.3</b>	<b>65.7</b>
<b>Commerce and repairs</b>	<b>6,264.9</b>	<b>82.1</b>
<b>Transport, warehousing and communications</b>	<b>9,633.2</b>	<b>77.3</b>

Source: Statistical Yearbook of the Central Statistical Office, March 2003.

**Chart 6. Structure of investment outlays 2002**

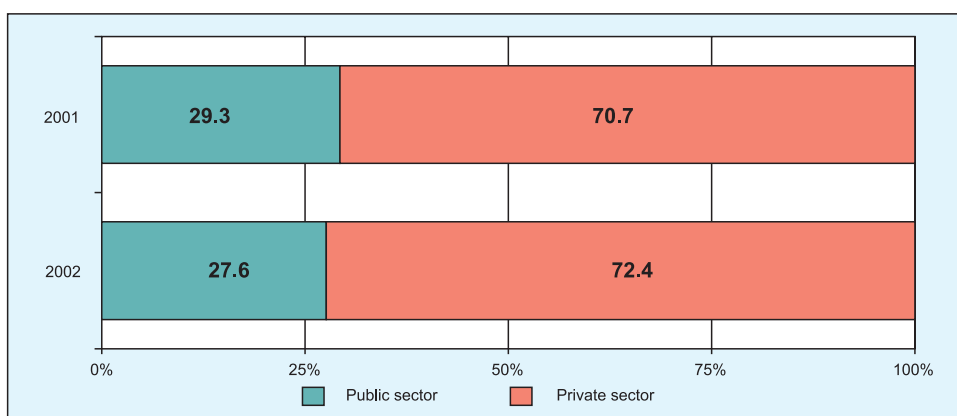


Source: Information on the country's economic situation, February 2003, Central Statistical Office, Warsaw.

In 2002, the share of the private sector in investment outlays reached the level of 72.4%, which meant an annual increase of 1.7 percentage point. 67% of the value of outlays is attributed to investment purchases.

From the total value of investment outlays, about 39% (a year earlier, 37%) was performed by entities with foreign capital (with foreign capital exceeding 1 million USD). The value of their investments in effective terms was lower by 10%, compared to last year's result.

**Chart 7. Ownership structure of investment in 2001 and 2002 (current prices)**



*Source: Information on the country's economic situation, February 2003, Central Statistical Office, Warsaw.*

In 2002, 44.8 thousand of new investment projects were commenced. This is 35.6% more than during the previous year. Over 50% of them are electric and gas service lines, whose unit estimated value is low<sup>3)</sup>. As a result, despite the higher number of projects, the total estimated value of commenced projects (19.4 billion zloty) was lower by 19%, compared to the results of the previous year. The value of commenced investment projects in industry and construction was reduced even sharper (by more than 1/2).

Lower investment ability of the economy leads to a slow-down of the processes of restructuring and modernisation of production potential. It hinders also the improvement in competitiveness of Polish firms.

<sup>3)</sup> The changes introduced into the energy law in 2002 demand that each power service line must be registered in statistical documentation as a separate investment.

According to a research conducted by the National Bank of Poland, entrepreneurs consider the following development barriers as the most important ones: low demand, payment bottlenecks and poor financial situation of their buyers. Difficulties in accessing credit are another significant problem. The reductions of prime interest rates, introduced by the Monetary Policy Council, caused the interest rates to drop – but the degree of reductions is still hard to accept for the potential borrowers. The growing charges tied to debt servicing, such as the rising bank fees and commission, constitute a serious barrier for using credit. Under such circumstances, the entrepreneurs contract credits only when they must.

**Table 11. Development barriers (% of entrepreneurs quoting the barriers)**

Frequency of problems reported in:	Low demand	Collection of receivables, payment bottlenecks	Recession, bad financial situation of buyers	Fluctuations in foreign exchange rates	Lack of liquidity	Problems with obtaining credit	Sharp competition	Taxes, social security charges	Inflation, higher prices of utilities	High interest rates
I quart. of 1999	28.2	11.2	8.9	18.5	15.1		17.0	8.1		12.0
I quart. of 2000	17.1	9.6	11.8	12.5	7.5		15.7	9.3	6.4	12.1
I quart. of 2001	17.9	11.7	14.3	15.6	6.5		12.7	11.7	11.0	16.2
I quart. of 2002	22.2	16.7	19.5	17.4	9.2	3.7	8.5	14.0	5.3	13.0
I quart. of 2003	19.7	17.1	16.5	14.3	7.5	9.0	6.4	9.6	2.4	5.1

Source: NBP, fast monitoring.

Non-banking sources still play a small role in investment financing in Polish economy. The entrepreneurs do realise the advantages of alternative sources for obtaining financing, such as leasing<sup>4)</sup> or factoring, venture capital investment funds, loan funds and loan guarantee funds. Despite this, these sources are not fully

<sup>4)</sup> In 2002, the total value of leasing contracts amounted to about 7.5 billion PLN – an increase of 19%, compared to the results of last years.



utilised. Resources obtained from privatization have been designated for the modernization and restructuring of production potential only to a very small extent<sup>5)</sup>.

From 2003, the entrepreneurs received support in the form of additional source to obtain funds for investment activities, on the basis of the law adopted by the Sejm on 20<sup>th</sup> March 2003, **The law on financial support for investment**<sup>6)</sup>.

## 2.3. Influx of foreign capital

Foreign direct investment (FDI) have a very important role as the source of capital for the Polish economy. Their share in export of goods is also significant. In 2002, foreign companies exported goods worth a total of 22.3 billion USD, which constituted 54.5% of the total value of Polish export. Their share in import amounted to 58.4%. Foreign companies employed 957.9 thousand employees in 2001.

2002 was not a good year for foreign investment – not only in Poland, but also globally. This was due to the poorer situation in economies all over the world.

### 2.3.1. The volume of foreign direct investments in 2002

On the basis of data of the National Bank of Poland<sup>7)</sup>, the value of foreign investment reached 4,119 million USD. In the same period of the previous year, foreign investment amounted to 6,995 million USD, which means their value dropped in 2002 by 2,876 million USD, or by 41.0%.

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<sup>5)</sup> In 2002, revenues from privatisation amounted only to 2.0 billion PLN (that is, 30% of the plan).

<sup>6)</sup> On the basis of the new law, financial support for a new investment project can be granted to an entrepreneur whose new investment project complies with specified conditions. The assistance is directed primarily to investors executing bigger investment projects, but also for those, whose investments are tied to the maintenance of existing or creation of new jobs. Assistance will also apply to investments with positive influence on the economic development of their region, and to projects introducing technical innovations, or improving the conditions of the natural environment. In 2002, almost 52 million PLN were allocated from the state budget for the support of investment projects, on the basis of this law.

<sup>7)</sup> The item "Direct investments: balance" from the Payments Balance of the NBP. This data covers only cash influx, without such items as contributions in kind.

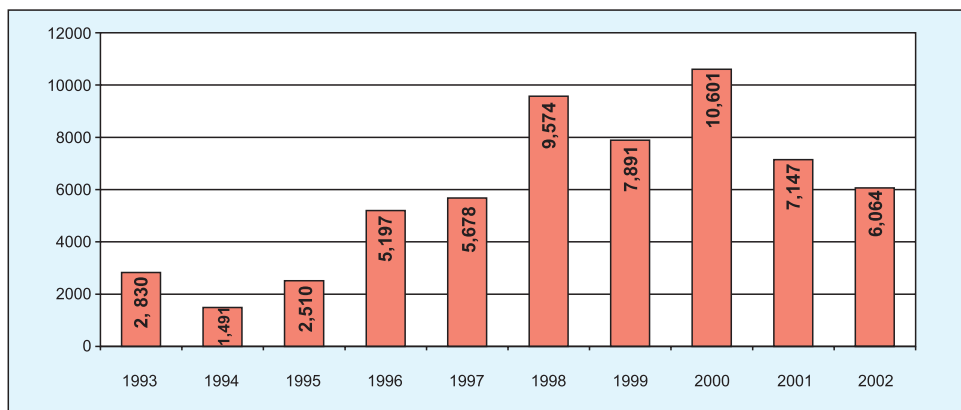
**Table 12. Influx of FDI according to NBP**

Year	I quarter	II quarter	1 <sup>st</sup> half of year	III quarter	for 3 quarters	IV quarter	Total
2001	1,413	1,410	2,823	1,326	4,149	2,846	6,995
2002	989	858	1847	912	2,659	1,460	4,119

*Source: National Bank of Poland, Payments Balance of the NBP.*

According to the data of the Polish Agency for Foreign Investment<sup>8)</sup>, in 2002 Poland received 6.06 billion USD in the form of foreign direct investment, compared to 7.1 billion USD during the same period of the previous year. This is more than 1.0 billion, or 14.7%, less than a year earlier; and more than 4.5% less than in 2000. However, it needs to be stressed that 2000 was an exceptional year, due to privatisation of the national telecom operator Telekomunikacja Polska S.A., for about 3.0 billion USD. Without this single privatisation project, the influx of FDI would reach about 7.6 billion USD – comparable to the level of FDI in 1999 and 2001.

**Chart 8. Influx of FDI to Poland in 1993–2002 (in million USD)**



*Source: PAIIZ.*

<sup>8)</sup> The data of NBP and PAIIZ differs from the standpoint of methodology. NBP provides the status of foreign obligations tied to direct investment in its statement of foreign liabilities, on the basis of reports of business entities. The PAIIZ collects data using questionnaires: it sends questions on FDI to individual foreign investors, focusing on large investment projects (over 1 million USD). The received answers are used to determine the volume of FDI. Sometimes not all investment projects, registered by PAIIZ, are realised in the given year and in the declared amount. As a result, the data from PAIIZ is of estimate nature, and is higher than data of the NBP or the CSO. However, it is believed that the data of PAIIZ properly reflects the dynamics of the influx of foreign direct investment into Poland – especially for the last five years of economic transformation in Poland.

The cumulative value of foreign investment at the end of 2002 amounted to 65.1 billion USD.

Of this, large investment projects, whose value exceeded 1 million USD, amounted to 61.4 billion USD.

At the same time, PAIlIZ estimates that investments whose value was smaller than 1 million USD reached the cumulative amount of 3.7 billion USD. In 2002, despite the lower level of FDI, Poland remained an attractive country for foreign investors, among the countries of Central and Eastern Europe. According to data of the UNCTAD, the influx of FDI to countries of Central and Eastern Europe in 2002 reached 27.0 billion USD. Of this, Poland received 6.06 billion USD – 22.4% of the total sum.

Foreign companies declared that their investments in Poland in the nearest future would amount to 12.9 billion USD.

### **2.3.2. Countries of origin of foreign direct investment**

In 2002, the main stream of investment came from Europe and the USA. Great Britain accounted for the largest portion of foreign investments – their total value reached 1,365 million USD and constituted about 35% of the total FDI coming into Poland in 2002. Investors from The Netherlands took second place, with FDI worth a total of 1,072 million USD (17.7%); and companies from the USA – third, with 887 million USD. Other leaders included French companies with 742 million USD; German – 562 million USD; and Belgian – 496 million USD. The total volume of FDI influx originating in these six countries amounted to 5,124.0 million USD, which corresponded to 84.5% of the total volume of FDI influx to Poland in 2002.

The list of largest investor countries, from the standpoint of cumulative value of FDI coming into Poland, did not undergo any major changes, compared to the status at the end of 2001. Investors from France still occupy the first place. The total value of their investments amounts to 12.2 billion USD, that is 19.8% of total FDI in Poland.

From the total cumulative amount of 61.4 billion USD that Poland received in the form of FDI (investments over 1.0 million USD), the largest portion, that is, 45.2 billion USD comes from the countries of the European Union and from the European Bank for Reconstruction and Development. This constitutes 73.5% of the total cumulative value of FDI. The value of capital invested by EBRD amounted to 1.2 billion USD at the end of 2002.

**Table 13. Cumulative value of FDI in Poland in 2002, per origin country of capital, in million USD**

No.	Place on the list in 2001	Country of origin	Cumulative value of invested capital as at:			Investment plans	Number of investors
			31.12.2001	31.12.2002	Share in %		
1	1.	France	10,220.8	12,172.1	19.8	2,261.2	93
2	2.	USA	7,806.0	8,736.1	14.2	2,522.5	128
3	3.	Germany	7,138.3	7,841.0	12.8	1,672.3	231
4	4.	The Netherlands	4,584.6	5,846.1	9.5	728.3	91
5	6.	Great Britain	2,667.0	4,051.8	6.6	515.8	45
6	5.	Italy	3,501.4	3,696.2	6.0	1,085.5	62
7	8.	Sweden	2,312.1	2,788.8	4.5	334.6	57
8	7.	Multinationals	2,465.7	2,424.7	3.9	697.0	17
9	13.	Denmark	915.0	1,839.2	3.0	303.0	43
10	15.	Belgium	1,162.1	1,645.3	2.7	205.8	23
11	9.	Korea	1,618.7	1,465.3	2.4	1.2	4
12	10.	Russia	1,286.4	1,323.2	2.2	300.0	3
13	12.	Ireland	1,041.2	1,059.7	1.7	31.2	2
14	14.	Cyprus	914.8	998.9	1.6	184.0	3
15	15.	Switzerland	904.7	925.0	1.5	334.9	24
16	16.	Austria	818.7	795.3	1.3	81.8	39
17	22.	Spain	380.2	592.2	1.0	38.5	13
18	20.	Portugal	493.1	560.2	0.9	66.6	4
19	19.	Greece	501.5	558.0	0.9	4.0	4
20	21.	Finland	424.1	405.6	0.7	102.8	16
21	18.	Japan	517.5	351.8	0.6	365.5	11
22	23.	Canada	250.2	314.0	0.5	284.4	14
23	17.	Norway	546.3	304.3	0.5	73.9	13
24	24.	Croatia	173.0	173.0	0.3	16.0	2
25	26.	Luxembourg	77.8	143.3	0.2	23.3	10
26	25.	Turkey	100.1	100.1	0.2	58.0	4
Total countries from item 1 to 26			52,821.3	61,111.2	99.5	12,292.1	956
Remaining 9 countries			330.9	336.2	0.5	574.3	23
<b>Investments above 1 million USD</b>			<b>53,152.2</b>	<b>61,447.4</b>	<b>100.0</b>	<b>12,866.4</b>	<b>979</b>
<b>Estimated FDI below 1 million USD</b>			<b>3,681.3</b>	<b>3,667.2</b>			
<b>TOTAL</b>			<b>56,833.5</b>	<b>65,114.6</b>			

Source: PAliIZ.

Investors from 35 countries are present in Poland; and the number of companies which invested more than 1.0 million USD reached 979 in 2002. This was 73 firms more than in 2001.

### 2.3.3. Sector structure of FDI

The sector structure of FDI in 2002 is quite different from the areas of capital allocation during the previous year. In 2002, the largest volume of funds was invested in **production activity**. The value of FDI influx reached 2.1 billion USD, which constitutes 34.3% of their total value.

The second largest area of foreign investments were financial services, where foreign companies injected 1.1 billion USD – 17.3% of the total value of FDI in 2002. In 2001, these values amounted to, respectively: 2.0 billion USD and 26.7%. Commerce and repairs is the third largest sector, with 749.7 million USD, which constitutes 12.4% of FDI value.

Of the total cumulative amount of 61.4 billion USD, invested so far in Poland by foreign companies, the largest portion – 24.8 billion USD – was invested in **production activity**.

The second largest sector are the financial services, where the total cumulative FDI amount to 13.4 billion USD; and the third – commerce and repairs, where the foreign investments reached 7.6 billion USD. The cumulative value of foreign direct investments in these three sectors listed above – production activity, financial services, commerce and repairs – amounted to 45.7 billion USD. This is 74.4% of the total value of FDI in Poland.

**Table 14. Foreign direct investment in Poland, divided into sectors according to the Polish Classification of Business Activity (PKD) (as at 31.12.2002, in millions USD)**

Sections of PKD	Capital invested in 2002	Cumulative FDI at the end of 2002	Share (%)	Plans for investment
<b>Production activity of this production of:</b>	<b>2,080.0</b>	<b>24,753.7</b>	<b>40.3</b>	<b>5,475.3</b>
– transport equipment	725.2	6,219.4	10.1	927.3
– food articles, beverages, tobacco	600.4	5,984.0	9.7	417.5
– other non-metal goods	296.0	3,383.4	5.5	950.2
– chemicals and chemical products	245.7	1,925.0	3.1	796.4

cont. ➡

Sections of PKD	Capital invested in 2002	Cumulative FDI at the end of 2002	Share (%)	Plans for investment
– paper production, publishing and printing	148.3	1,728.1	2.8	287.4
– electrical and optical devices	100.4	1,678.1	2.7	279.9
– wood and wooden products	48.9	1,339.6	2.2	203.2
– rubber and plastic products	26.1	647.9	1.1	408.8
– metals and processed metal goods	9.9	548.1	1.0	787.1
– machinery and equipment, not elsewhere classified	-1.7	524.4	0.9	86.4
– production not elsewhere classified	-9.2	452.3	0.7	284.5
– fabrics and textile products	-10.0	308.8	0.5	46.1
– leathers and leather goods	-100.0	14.6	0	0.5
<b>Financial services</b>	<b>1,052.0</b>	<b>13,393.2</b>	<b>21.8</b>	<b>197.4</b>
<b>Wholesale and retail commerce, repairs</b>	<b>749.7</b>	<b>7,586.3</b>	<b>12.3</b>	<b>908.5</b>
<b>Transport, warehousing and communications</b>	<b>691.0</b>	<b>6,251.4</b>	<b>10.2</b>	<b>625.9</b>
<b>Construction</b>	<b>474.2</b>	<b>3,274.8</b>	<b>5.3</b>	<b>1,225.7</b>
<b>Supply of electric energy, gas and water</b>	<b>508.8</b>	<b>2,272.2</b>	<b>3.7</b>	<b>1,306.1</b>
<b>Services: municipal and individual</b>	<b>214.3</b>	<b>1,825.7</b>	<b>3.0</b>	<b>535.9</b>
<b>Real estate services, services for businesses</b>	<b>159.4</b>	<b>1,174.2</b>	<b>1.9</b>	<b>2,261.2</b>
<b>Hotels and restaurants</b>	<b>131.5</b>	<b>652.6</b>	<b>1.1</b>	<b>301.2</b>
<b>Mining and quarrying</b>	<b>4.4</b>	<b>218.5</b>	<b>0.3</b>	<b>13.0</b>
<b>Agriculture</b>	<b>-1.2</b>	<b>44.8</b>	<b>0.1</b>	<b>16.3</b>
<b>Total investments exceeding 1 million USD</b>	<b>6,064</b>	<b>61,447.4</b>	<b>100.0</b>	<b>12,866.4</b>
<b>Estimate investments below 1 million USD</b>	<b>x</b>	<b>3,667.2</b>		<b>x</b>
<b>TOTAL</b>	<b>x</b>	<b>65,114.6</b>		<b>x</b>

Source: PAliIZ.

### 2.3.4. The largest individual investors in 2002

**Table 15. The largest individual foreign investors in 2002**

No.	Investor	Invested capital in millions USD	Country of capital's origin	Sector
1	KBC Bank N.V	442.0	Belgium	Banking, finance
2	RWE Plus AG	388.0	Germany	Power sector
3	Tesco Plc	320.0	Great Britain	Retail commerce
4	Rodamco N.V	240.0	The Netherlands	Construction and real estate
5	EBRD	239.6	Multinational	Capital investments
6	ITI Group NV	150.0	the Netherlands	Media and entertainment
7	Energis Plc	150.0	Great Britain	Telecommunications
8	Credit Agricole S.A.	146.8	France	Banking, finance
9	Glaxo SmithKline	139.5	Great Britain	Pharmaceuticals
10	Volkswagen AG	126.7	Germany	Motor vehicle industry

Source: PAIIZ.

Those 10 companies, listed above, invested a total of 2,342.6 million USD – which constitutes 38.6% of total influx of FDI into Poland in 2002.

### 2.3.5. The largest investors from the standpoint of cumulative investment value

**Table 16. The largest individual foreign investors in 2002 according to cumulative value of investment, with investments exceeding 1.0 million USD**

No.	Investor	Invested capital in millions USD	Country of origin	Sector
1	France Telecom	3,199.4	France	Telecommunications
2	FIAT	1,749.3	Italy	Motor vehicle industry
3	Daewoo	1,452.3	South Korea	Motor vehicle industry, production of electrical equipment
4	HVB Group	1,336.0	Germany	Banking, insurance
5	Citigroup	1,300.0	USA	Banking
6	RAO Gazprom	1,283.8	Russia	Construction
7	Vivendi Universal	1,243.4	France	Telecommunications
8	United Pan-Europe communications	1,200.0	The Netherlands	Media and entertainment
9	UniCredito Italiano	1,200.0	Italy	Banking
10	EBRD	1,194.6	Multinational	Banking, capital investments
11	KBC Bank N.V	1,146.0	Belgium	Banking, insurance
12	Metro AG	1,125.0	Germany	Commerce

Source: PAIIZ.

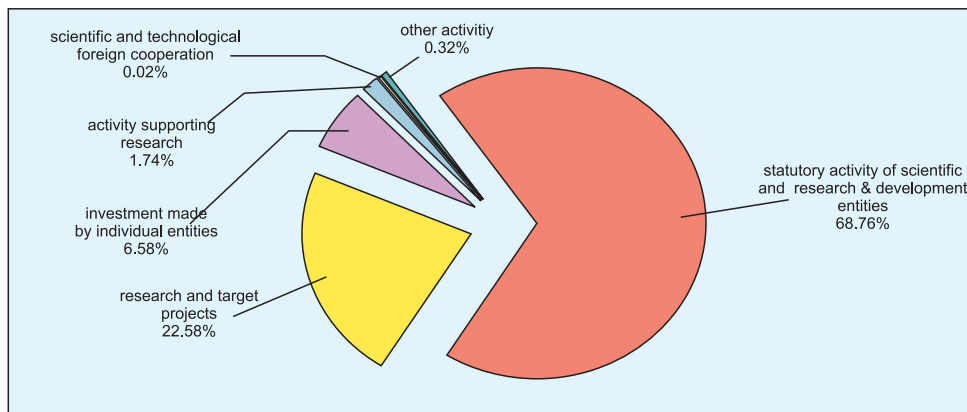
The companies listed above invested a total of 17,429.8 million USD, which constitutes 28.4% of the cumulative value of large FDI, exceeding 1 million USD.

## 2.4. Scientific research and development works (R&D)

According to the data of the State Committee for Scientific Research, the ratio of expenses for scientific research as percentage of the GDP went down from 0.758% in 1991 to 0.358% in 2002. Meanwhile, the share of non-budget resources, obtained from business entities and foreign sources, remain on the level of about 0,30%. This is a reversal of proportions which exist in developed countries of the European Union, where the non-budget resources constitute the main source of financing research.

In order to change this situation, it would be necessary to undertake further systemic actions meant to improve the capacity of enterprises to self-finance and develop; acquire private or public funds, and foreign capital, to finance innovative projects.

**Chart 9. The structure of distribution of budget outlays in the section “science” in 2002, in the individual financing streams**



Source: State Committee for Scientific Research – KBN.

The distribution of expenses per groups of research entities was as follows: universities – 43.56%; research and development entities – 28.08%; units of the Polish Academy of Sciences – 24.50%; other – 3.86%.

In 2002, Poland had more than 200 research and development entities, supervised by several bodies. These entities are very varied in terms of their scope of activities, size and research potential.



According to the status at 31<sup>st</sup> December 2002, the Minister of Economy supervised 117 R&D entities, including: 70 institutes, 38 research & development centers and 8 central laboratories.

The research & development entities, supervised by the Minister of Economy, constituted in 2002 over 50% of all entities operating in the country, and employed about 18 thousand persons.

Scientific activity, conducted by research and development entities, receives financial support from the state budget. A significant portion of the budget funds is designated to finance the statutory activity of entities, and to carry out research and target projects.

In 2002, the largest portion of budget funds was designated for financial support of research and target projects in the area of technology (over 60%), and the second-largest financed projects in the area of natural science (about 29%).

### **Contracted research projects**

According to the data of the State Committee for Scientific Research, in 2002 47 contracts for special research projects have been financed. Of this, 13 have been set up in 2002, and 34 had been contracted in the previous years.

According to status as at 31<sup>st</sup> December 2002, 233 contracted research projects were completed; and 224 final reports were analysed.

### **Multi-annual programmes**

In 2002, the State Committee for Scientific Research signed a contract for the performance of scientific research and development works covered under a multi-annual programme called "Adaptation of labour conditions in Poland to the standards of the European Union" (this programme was contracted by the Minister of Labour and Social Policy, and currently is continued by the Ministry of Economy, Labour and Social Policy).

Another multi-annual contract was the one proposed by Minister of Economy, "Development of blue optoelectronics. Creation of the technological and production foundations for the new area of industry – blue optoelectronics".

The multi-annual programme (SPR) called "Security and protection of health within the work environment", which was carried out by the Central Institute of Labour Protection in Warsaw was finalised, closed and settled.

In 2002, the Ministry of Economy commenced work regarding the establishment of a new multi-annual programme called "Improvement of the systems for developing

innovation in production and maintenance". The programme has been considered by the Committee of the Council of Minister, and recommended to the Council of Minister.

### **Target projects and contracted target projects**

The subject matter of target projects applies to applied research and development works, important for social or economic reasons, which together with the implementation and investment portion constitute an economic or social undertaking.

In 2002, the State Committee for Scientific Research received 256 applications for the financing of target projects. Upon solving the competition for motions submitted in 2002, the Committee concluded 227 contracts for financial support of their execution. In 2002, there were 1156 active contracts for target projects (in the case of 330 contracts, the research & development phase was carried out by research and development entities supervised by the Minister of Economy).

In 2002, the Polish Federation of Engineering Associations NOT (PFEA-NOT), on the basis of a contract with the State Committee for Scientific Research, received for implementation target projects, proposed by small and medium-sized enterprises. In 2002, the PFEA-NOT received a total of 119 applications, of which 93 contracts for target projects were signed, following competitions.

The State Committee for Scientific Research provided also financial support for contracted target projects. These projects cover tasks, or sets of research and development tasks, resulting from the social or economic needs of the state, including the needs of its regions. In 2002 there were 32 active contracts for contracted target projects.

### **Certification, accreditation and training activity**

An accredited research centre has the opportunity to assess actions performed by other entities, from the standpoint of their compliance with specific norms, regulations or recommendations, including international ones. Accreditation increases the rank of a research entity. The laboratories of research entities, which issue attestations, certificates, permits or certificates of admittance can be classified as follows:

- global laboratories: 68 registered laboratories, 10,102 issued certificates.
- European-scale laboratories: 122 registered laboratories and 16,186 issued certificates.

- national-scale laboratories: 351 registered laboratories and 2029 issued certificates.
- laboratories of unspecified scope: 37 registered laboratories, 335 issued certificates.

At the same time, R&D entities attempt to improve their competitive edge by obtaining certificates for their own operations. 73 research & development entities hold valid certificates. Some of them have certificates for various areas of operations. The total number of certificates granted to research & development entities is 183. In the course of the certification process, the entities employed the services of 51 certification companies. Most often, they used the services of the Polish Accreditation Centre, PCBC and the Department of Measures and Standards.

## 2.5. Implementation instruments

### Prices

According to the Act on Prices, dated 5<sup>th</sup> July 2001 (Journal of Laws no. 97, item 1050 with subsequent amendments), the types of prices which are used in trade are contractual prices, and in some cases, official prices. The law introduced also rules for setting and applying official prices with respect to pharmaceuticals and medical materials, included in the list issued on the basis of the law on universal health insurance, dated 6<sup>th</sup> February 1997 (Journal of Laws no. 28, item 153 with subsequent amendments), and since 1<sup>st</sup> April 2003, on the basis of the law dated 23<sup>rd</sup> January 2003, on the basis of the law dated 23<sup>rd</sup> January 2002, on universal insurance with the National Health Fund (Journal of Laws no. 45, item 391 with subsequent amendments). Official prices are also set for pharmaceuticals which are not included in the said list, but which are used in hospital health services, and financed from public resources.

According to the law on prices, official prices can be also set within a municipality, by the municipal council, for mass transit services and for taxi services.

Some prices, such as the price of electric energy, gas fuels and heat, are subject to regulations contained in the law dated 10<sup>th</sup> April 1997, The Energy Law (Journal Of Laws no. 54, item 348 with subsequent amendments).

## Taxes

**Table 17. Revenues of the state budget on taxes, dividend and custom charges in 2001–2002 (in billion PLN)**

	Indirect taxes		Direct taxes		Dividend and profit disbursements	Payments from customs fees
	on goods and services (VAT)	excise duty	from legal persons	from individuals		
2000	51.7	27.3	16.9	23.1	0.9	5.1
2001	52.9	28.9	13.2	23.4	0.9	4.1
2002	57.4	31.5	15.0	24.1	0.6	3.8

Source: *Statistical Bulletin of the Central Statistical Office, issues: 6.2001, 6. 2002, 6.2003.*

### Income tax

**Tax rates** According to the act of 15<sup>th</sup> February 1999 on the Corporate Income Tax (Journal of Laws, of 2000, no. 54, item 654 with subsequent amendments), in 2002 legal entities calculated their tax according to the rate of 28% on the taxable base. In 2003, the tax rate amounted to 27%.

Individuals who engage in business activity, as individuals (sole proprietors) may choose the form of taxation, and pay their taxes in one of the following forms:

- According to general rules of taxation for individual persons, on the basis of the law dated 26<sup>th</sup> July 1991 on Personal Income Tax (Journal of Laws, of 2000r, no. 14, item 176 with subsequent amendments), according to the rates which in 2002 (and 2003) amounted to: 19%, 30% and 40%, depending on the income range;
- lump sum tax on revenues, on the basis of the registered inventory of revenues, according to rates set for 2002 at: 8.5%, 5.5% and 3.0%, in 2003: 20%, 17%, 8.5%, 5.5%, 3.0%, depending on the type of business activity. To be eligible for this tax system, the entrepreneur's revenues may not exceed a certain revenue amount. In 2002, this amount was set at 499,460 Polish PLN; and in 2003 – at 250,000 euro.
- in the form of the so-called tax chart, provided the entity does not exceed certain employment limits, defined in the regulations.

It is assumed that in 2004 the rates of CIT and PIT, tied to business activity, would be lowered to 19%.

**Tax allowances.** On 26<sup>th</sup> October 2002, a new tax allowance in the form of the so-called tax credit was introduced. Taxpayers who have started their first business activity may be relieved, for a period of one year, from the obligation to submit monthly tax declarations, from making the advance payments for income tax (or the lump sum tax) and from the payment of tax. Individuals engaged in business activity can also be relieved from the duty to add their business income to income obtained from other sources in their annual tax return. The unpaid tax must be repaid over the next 5 years.

This tax relief can be obtained in the year following the year of commencement, provided that the entrepreneur managed the activity for at least 10 full months. In practical terms, this relief becomes available only in 2004.

**Depreciation.** In 2002, depreciation applied to fixed assets and intangible fixed assets, whose estimated time of use is longer than 1 year; and whose starting value was higher than 3,500 PLN. On 5<sup>th</sup> September 2002 a new rule was introduced. During the first year in which factory-new fixed assets from the 3–6 groups of Classification of Fixed Assets are introduced into the inventory, the taxpayers can make depreciation deductions of 30% of the value of these assets. It is also possible to make depreciation deductions not only on a monthly basis, but also at the end of every quarter, or in a single move at the end of the fiscal year. This rule is applied also in 2003.

### **Tax on goods and services – the VAT**

The law on the VAT and excise tax, dated 8<sup>th</sup> January 1993 (Journal of Laws No. 11, item 50 with subsequent amendments), defined the following rates of this tax for 2002: the basic rate of 22%, and the special reduced rates of: 12%, 7%, 3% and 0%.

**The 0% rate** was applied to the export of goods and services; of some artificial fertilizers and pesticides, fodder. It was also applied to art books and specialist magazines, as well as to goods used for fire prevention and protection (only until the end of 2003).

**The reduced rate of 3%** was applied to unprocessed agriculture products; some forestry products; to folk and artistic craft products; and computer equipment sold to schools and kindergartens (by the end of 2003).

**The reduced rate of 7%** was applied to goods tied to health protection, some food products; children's goods (coats, clothes, underwear, shoes); construction materials and services; construction and assembly works and renovations in

housing and accompanying infrastructure; housing premises and buildings or their parts, excluding commercial units.

**The reduced rate of 12%** is applied to toys and some goods for children (this rate was applied only until 31<sup>st</sup> December 2002).

**Tax exemption** was applied to some services tied to agriculture, forestry and hunting; some services in land transportation; research & development services; services in the fields of education, health protection and social welfare.

On 1<sup>st</sup> October 2002, a new category of taxpayers was introduced: the so-called small taxpayer, whose value of sales and export of goods and services did not exceed the equivalent of 800,000 euro during the previous fiscal year. Those taxpayers are entitled to submit quarterly declarations, and settle the VAT with the cash method.

### **Excise Duty**

According to the law on the VAT and excise tax, dated 8<sup>th</sup> January 1993 (Journal of Laws, No. 11, item 50 with subsequent amendments), in 2002 excise duty was applied to the following goods:

- petroleum products and synthetic liquid fuels (as of 26<sup>th</sup> March 2002, excise duty was introduced on all goods meant for use as engine fuels or as additives or mixes for these fuels),
- products of the spirit and yeast industry (excluding yeast), wine products, beer, other alcoholic beverages with alcohol content higher than 1.2%; and alcoholic beverages which are the mix of beer and non-alcoholic beverages, with alcohol content higher than 0.5%;
- tobacco products;
- cars;
- such goods as hunting firearms, gas weapons, sea yachts, sailboats (until 17<sup>th</sup> July 2002), high-class electronic appliances, video cameras, salt, beauty products, perfumes etc.;
- gas used as fuel for cars and to fill camping gas bottles with mass not exceeding 5 kg;
- electric energy (since 26<sup>th</sup> March 2002).

The excise duty rates are defined as amounts on specific products, as percentage (on the producer's sales price or importer's customs value), or under a mixed system (for cigarettes). The maximum amounts of excise rates are defined

in the law. The law authorises the Minister of Finance to define, by way of an ordinance, rates which are lower than the maximum rates.

From 10<sup>th</sup> March 2002, the rules for calculating excise tax on cars have been changed. The rate of tax was lowered for new cars, and rates for old imported cars had been raised (the rate increases progressively based on the age of the car).

*As of 1<sup>st</sup> October 2002, the excise duty on spirits was reduced from 6,278 PLN/hl of 100% spirit, to the level of 4,400 PLN/hl. This applies both to domestically produced and to imported spirits.*

### **Real Estate Tax**

In 2002, the real estate tax was levied on the basis of the law dated 12<sup>th</sup> January 1991 on the local taxes and fees (Journal of Laws No. 9, item 31, with subsequent amendments), on land and buildings (rate defined in PLN per square meter of area), and on constructions (as % of value).

The maximum rates of real estate tax are defined in the law, and they are increased annually, to match the increase of the Consumer Price Index.

Real estate tax exemption, provided for under the law, is applied to specific objects. The exemption is applied to buildings and land directly tied to the functioning of technical infrastructure (public roads, buildings used solely for the needs of public railroad transportation).

Municipal councils have the right to introduce tax exemptions and to define tax rates within the municipality.

### **Tax on means of transportation**

In 2002, by force of the law dated 12<sup>th</sup> January 1991 on the local taxes and fees (Journal of Laws No. 9, item 31 with subsequent amendments) this tax was applied to trucks and truck-tractors, ballast tractors, trailers and semi-trailers exceeding certain load capacity and to buses.

The municipal council defines, by way of a resolution, the amounts of the said tax, which cannot however exceed the amounts provided for under the law.

### **Stamp duty and tax on civil law actions**

In 2002, the legal status regarding stamp duty was contained in the regulations of the law dated 9<sup>th</sup> September 2000 on stamp duty (Journal of Laws No. 86, item 960 with subsequent amendments).

This tax is levied on civil law actions, whose object is the non-professional trade in goods and property rights, if this trade is not made under business activity; as well as documents which confirm the completion of such actions.

As of 1<sup>st</sup> January 2003, the amount of stamp duty was reduced on the permits to engage in business activity, and on certificates regarding the tax obligations. As regards the tax on civil law actions, tax exemption was applied – under certain conditions – to loans granted to commence or manage business activity. These changes are meant to reduce the operating costs of entrepreneurs.

## **Pledges and guaranties of the State Treasury<sup>9)</sup>**

The law dated 8<sup>th</sup> May 1997, on the pledges and guaranties issued by the State Treasury and some legal persons (Journal of Laws No. 79, item 484 with subsequent amendments).

The State Treasury may issue guaranties and pledges for: repayment of credits, performance of obligations resulting from bonds, performance of obligations resulting from transactions hedging against the risk of interest rate change or foreign exchange change; tied to a credit guaranteed or pledged by the State Treasury or to an issue of bonds; as well as pledges for the payment of compensation for destroyed, damaged or stolen exhibits. Entities may apply for a guarantee or pledge regardless of their legal status and ownership structure.

The pledges and guarantees of the State Treasury are issued by the minister competent for public finance issues, or by the Council of Ministers.

The total limit of guarantees and pledges of the State Treasury for each budgetary year is defined in the Budgetary Law.

In 2002, the Bank Gospodarstwa Krajowego issued, from the resources of the National Credit Guarantee Fund (Krajowy Fundusz Poręczeń Kredytowych) a total of 291 pledges for the repayment of business credits. Their value amounted to 92.9 million PLN.

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<sup>9)</sup> The Minister competent for public finances issues a pledge or guarantee if its amount exceeds the equivalent of 5 million euro; and the Council of Ministers in cases where the amount of pledge or guarantee exceeds the equivalent of 30 million euro. Bank Gospodarstwa Krajowego issues a pledge or guarantee if its amount does not exceed the equivalent of 5 million euro. Pledges or guarantees issued by authorised legal persons may not be higher than 60% of the capital (equity), and the value of pledge or guarantee for the liabilities of one entity may not exceed 20% of the capital (equity).

Pledges and guaranties of the State Treasury may be issued up to 60% of the credit amount, and up to 60% of interest due on this amount and other costs directly tied to this credit; or to 60% of liabilities tied to an issue of bonds. The Council of Minister may issue a pledge or guarantee higher than 60% in cases where the project is of particular importance for the national economy.



Bank Gospodarstwa Krajowego, together with the National Credit Guarantee Fund, plays a leading role in the system of credit guarantees for small and medium-sized enterprises, which is being currently developed.

## Special Economic Zones

**Special Economic Zones** (SEZ) are one of the instruments for financial and organisational support for new investments.

There are 14 Special Economic Zones in Poland, and their total area amounts to 6.3 thousand hectares. An entrepreneur undertaking new investment projects within a SEZ, on the basis of a special permit, uses public aid in the form of exemption from the income tax.

Until the end of 2000, the rules and conditions for operations within the SEZ, defined by the law dated 20<sup>th</sup> October 1994 on Special Economic Zones (Journal of Laws No. 123, item 600, with subsequent amendments) differed significantly from standards of the European Union. For this reason, these regulations have been adapted to the EU legislation with an amendment to the law on SEZ, introduced in November 2000.

In December 2002, the government completed negotiations with the European Union, regarding the rules for the functioning of entrepreneurs who received their permits by the end of 2000 – before the amended law came into force.

The negotiated rules were written into the Accession Treaty, and the draft law amending the law on Special Economic Zones and other laws, which is currently being worked on by the European Committee of the Polish Sejm. The draft law states that the rules negotiated for entrepreneurs who hold permits issued from 1995 to 2000 would become effective on the date of Poland's accession to the EU.

### **The results of the Zone's functioning**

Until the end of 2001, 297 entrepreneurs commenced operations in the SEZ. At the end of 2002, they have created 48,000 jobs, and invested 13 billion PLN.

The implementation of all investments covered by the permits issued so far should lead to the creation of at least 60,000 jobs.

From 1<sup>st</sup> January 2001 until 31<sup>st</sup> March 2003 – under the new rules – 69 permits were issued. These permits will lead to the creation of 4,100 new jobs, and investment outlays tied to them would reach the total of 1,120 million PLN. So far,

investment outlays made on the basis of the "new permits" amount to 124 million PLN; and employment rose by 1.4 thousand persons.

The largest investment projects, commenced in the SEZ from January 2002, include:

- in the Wałbrzych Zone – two Toyota factories (production of car engines, and doubling the production of gearboxes in Wałbrzych, and of Diesel engines in Jelcz-Laskowice),
- in the Katowice Zone, Caterpillar will invest at least 112 million PLN in the production of metal constructions, and Fiat Avio 42 million in the production of motor vehicle accessories,
- in the Kostrzyń-Słubice zone, Faurecia will invest 80 million PLN in production of motor vehicle accessories,
- in the Cracow zone, the Becker company is building a paints and lacquers production plant, for at least 10 million PLN.

### **Financial support for export**

**Guarantees and pledges for export undertakings.** An entrepreneur may obtain a guarantee or pledge of the State Treasury, provided that the credit covered with them is designated to finance investment projects which guarantee to develop export of goods and services. A guarantee or pledge of the State Treasury may also be issued for credits to finance the purchase of materials or ready-made products, which are used to produce investment goods for export, where the contract value of such undertaking exceeds 10 million euro.

**State Guaranties for insurance of export contracts** – export insurance provided by the Export Credit Insurance Corporation KUKI S.A. may apply to: export credits, export contracts, direct investments made in foreign countries, as well as to the costs of searching for foreign outlet markets. These insurances may have the form of direct or indirect insurance, or the provision of insurance guaranties<sup>10)</sup>.

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<sup>10)</sup> The Export Credit Insurance Corporation KUKI S.A. insures the export receivables, guaranteed by the State Treasury, within the limit of funds determined under the budgetary law. In 2002, this limit amounted to 6.5 billion PLN, and its level remained unchanged for 2003. In 2002, the insurance coverage of KUKI S.A. was applied to 2.43% of the total value of Polish export, and the statutory limit was used in 33.02%.

**Subsidies to interest rates on export credits** – banks which issue export credits can obtain subsidies to export credits<sup>11)</sup>, via the Bank Gospodarstwa Krajowego. These subsidies enable to stabilise the interest on export credit on the level of fixed Commercial Interest Reference Rate – CIRR.

**Government credits designated for the financing of export of goods and services** – this form of financing the export of goods and services from the country of the creditor (the so-called tie-in aid) is applied mainly to borrower countries with low *per capita income*. In Poland these credits were applied in a very limited scope<sup>12)</sup>. So far, only two contracts for government credits had been signed, for a total of 135 million USD<sup>13)</sup>.

## Financial support for investment

The basis for granting financial support for new investment undertakings is the law dated 20<sup>th</sup> March 2002, on financial support for investment (Journal of Laws no. 41, item 363 and no. 141, item 1177) which came into force on 20<sup>th</sup> May 2002, and secondary provisions to this law<sup>14)</sup>:

<sup>11)</sup> In the state budget 20 million PLN were set aside for the implementation of the DOKE programme, but no contract on subsidies was signed during that period. The budgetary law for 2003 contains a target reserve of 8.0 million PLN for the programme of subsidising the interest rate on export credits.

<sup>12)</sup> The budgetary law for 2002 set the limit for this purpose at 1.08 billion PLN. The budgetary law for 2003 set the limit for this purpose at 1.04 billion PLN.

<sup>13)</sup> Agreement between the governments of the Republic of Poland and the People's Republic of China, on financial cooperation. On the basis of this agreement, the Polish government granted credit to the Chinese government, of 85 million USD, to finance the deliveries of Polish technologies and investment goods, tied to the protection of natural environment. On 16<sup>th</sup> October 2002, an agreement was signed between the government of the Republic of Poland and the federal government of the Federal Republic of Yugoslavia (currently Serbia and Montenegro), on granting a credit of 50 million PLN. The credit is designated mainly to finance the deliveries of machines, equipment and services imported from Poland to the Federal Republic of Yugoslavia. This applies mainly to the mining and power sector.

<sup>14)</sup> Ordinance of the Minister of Economy, dated 14<sup>th</sup> June 2002, regarding the detailed criteria for providing financial support for new investment projects (Journal of Laws No. 85, item 768), Ordinance of the Minister of Economy, dated 14<sup>th</sup> June 2002, regarding the sample applications for providing financial support for new investment projects (Journal of Laws No. 85, item 769),

- Ordinance of the Minister of Economy, dated 14<sup>th</sup> June 2002, regarding the detailed manner and deadlines for submitting applications for providing financial support for new investment projects (Journal of Laws No. 85, item 770, and No. 160, item 1329),
- Ordinance of the Minister of Economy, dated 14<sup>th</sup> June 2002, regarding the detailed manner and deadlines for granting or refusing financial support for new investment projects (Journal of Laws No. 85, item 771, and No. 160, item 1330).

The law defines the rules and forms for support, granted by the minister competent for the economy, to entrepreneurs commencing new investment undertakings, or creating new jobs tied to these investments.

Financial support can be granted:

- 1) to an entrepreneur making a new investment:
  - whose value does not exceed 50% of the maximum allowable amount of public aid,
  - for the creation of new jobs,
  - for training;
- 2) to a **municipality**, for the development and modernisation of technical infrastructure, directly tied to the supported investment project of a specific entrepreneur.

The basis for granting financial support is the approval of application, submitted by the entrepreneur, or by entrepreneur together with the municipality. The application must follow the rules of the said law and of the ordinance of the Minister of Economy, on the detailed criteria for providing financial support for a new investment project. The law provides two dates for submitting applications: March and October.

Financial support may be granted to an entrepreneur making a new investment, if this investment meets one out of five conditions listed in the law, that is:

- 1) the value of the new investment is not lower than the equivalent of 10 million euro; or
- 2) the value of the new investment is not lower than 500,000 euro in cases, where the investment applies to a development or modernisation of an existing enterprise; and saves at least 100 jobs, or 50 jobs in case where the investment is made in one of the support areas, for a period not shorter than 5 years; or
- 3) the new investment leads to the creation of at least 20 jobs for a period not shorter than 5 years; or
- 4) the new investment introduces a technical innovation; or
- 5) the new investment improves the condition of natural environment.

The applications are evaluated on the basis of criteria defined in the law and in the secondary provisions, that is:

- 1) location of the new investment,
- 2) size of the new investment,
- 3) volume of employment,

- 4) expected economic effectiveness of the new investment,
- 5) impact on the natural environment,
- 6) impact on the economic activation of the region,
- 7) the innovative nature of the technology used to produce goods and services under the new investment,
- 8) compliance of the new investment with areas designated as priorities on the basis of observing technology development tendencies.

The points granted for individual criteria are added up. Support is granted or refused on the basis of the number of points. The basis to grant financial support is the contract on financial support for the new investment, concluded between the minister competent for the economy, and the entrepreneur (or entrepreneur acting jointly with the municipality). Funds are disbursed up to the amount of the incurred and documented investment outlays.

Budgetary funds, designated for implementation of the law on financial support for investment, are defined in the budgetary law, under target reserves set for the given year. The annual pool is broken down into two parts: 80% of funds for the first tour of applications, and 20% for the second.

In 2002, over 320 applications were received for financial support for new investments. Following consultations with the Team on Granting Financial Support to Entrepreneurs, and seeking the opinion of the President of the Office for Competition and Consumers Protection, the minister competent for economy finally approved and signed contracts with 18 entrepreneurs (of which two were acting jointly with the municipalities). The total value amounted to 82,118,613 PLN.

### **Promotional Activity of the Ministry of Economy, Labour and Social Policy**

The goal of the promotional activities, undertaken by the Ministry of Economy, Labour and Social Policy, is to create the image of Poland as a credible partner for economic cooperation. This is meant to create a favourable climate for direct microeconomic promotion, effected by enterprises. As promotion is very important for the growth of export, and its costs are quite high, the Ministry attempts to support (and sometimes even inspire) such undertakings, using the instruments it has at its disposal – by providing financial, organisational and substantive support.

**Organisation of fairs and exhibitions, and financial support for foreign missions of Polish exporters.** In this area, the activities of the Ministry of Economy, Labour and Social Policy focus on:

- financial support for the participation of Polish enterprises in selected fairs and exhibitions abroad; as well as commercial missions abroad;
- initiating and co-organising commercial missions and national exhibitions;
- organisation of Polish stands at fairs and exhibitions by the economic and commerce divisions of embassies and consulates of the Republic of Poland.

**Selective Promotion Programme.** Assistance offered under the Programme includes financial support – in the form of target subsidies – for the costs of executing selective (focused on individual sectors) promotional projects. Such projects are undertaken by a group, or for a group, of at least five Polish entrepreneurs operating in sectors and commodities groups with high export potential.

**Promotional activity of the economic and commercial divisions of the embassies and consulates of the Republic of Poland** – the economic and commercial divisions constitute a very important element of the system for promoting the Polish economy. These divisions are responsible for macroeconomic representation of Polish interests abroad. They are increasingly involved in supporting small and medium-sized enterprises in their business contacts in the respective countries. There are no other, self-government or administrative, structures that would be able to effectively represent the interests of Polish firms abroad. Given this situation, the economic and commercial divisions provide information and advisory services to small and medium-sized entrepreneurs (larger enterprises sometimes have their own foreign structures).

**Support of the organisation of “Polish Homes” abroad.** Polish Homes, established abroad by a group of Polish entrepreneurs representing one or several similar sectors, are used as commercial and exhibition centres. They present the export offer of the founders of the Polish Home and other interested enterprises. The premises can be used for both wholesale and retail sales. The Polish Homes are a purely commercial undertaking. During the first phase of establishing the Polish Home (until the registration of business activity in the relevant country, and signing the contract for localisation of the PH), the Minister of Economy, Labour and Social Policy provides financial support (from budgetary resources) for study work, legal assistance and consulting services for the development of the business plan for the Polish Home. During the second phase of establishing the Polish

Home (that is, from the moment of undertaking commercial activity), support is provided for promotional activities.

**Foreign Trade Academy of the Ministry of Economy, Labour and Social Policy.** The purpose of this project is to facilitate the Polish entrepreneurs access to training regarding the organisation and techniques of foreign trade, by financing part of the training costs.

**Programme of subsidies for entrepreneurs, to finance the costs of obtaining certificates for their products.** The programme offers financial support for entrepreneurs, to cover part of the costs of obtaining product certificates, which are required in foreign markets. This assistance applies to:

- certificates of compliance with the requirements defined in the standards of a given foreign market, the Single Market of the European Union (such as the CE certificate), and with international requirements. The assistance does not cover certificates tied to systems for the management of quality, environment and labour safety.
- certificates required for commodity trade in foreign markets, such as veterinary certificates or hygienic certificates.

**Financial support for the promotion of: publication events, organisation of conferences, seminars, workshops dedicated to the issues of foreign trade and promotion of Polish export.** The Ministry of Economy, Labour and Social Policy provides financial support for the various publications in Polish and in foreign languages. These publications include: promotional materials, purchase and distribution of information publications, catalogues, information brochures and periodicals, as well as publication-related promotional activities undertaken by groups of entrepreneurs, agencies and business self-government organisations.

**The Export Promotion Portal (TISPE)** – from 30<sup>th</sup> April 2003, Polish entrepreneurs and foreign companies can utilise the Internet Export Promotion Portal of the Ministry of Economy, Labour and Social Policy. The purpose of the portal is to promote and support Polish export, by integrating the scattered business-related Internet resources, enabling free access to credible and up-to-date business information, and to facilitate contacts between entrepreneurs and their foreign partners ([www.eksporter.gov.pl](http://www.eksporter.gov.pl)).

## Facilitating in customs and tax procedures for the exporters

On 1<sup>st</sup> May 2002, the new structure of customs administration started its functioning. The decentralization of customs administration – liquidation of the Central Customs Office and the appointment of directors of customs chambers, as supervisors of customs offices - is a solution very favourable for entrepreneurs engaged in commodities exchange with foreign countries<sup>15)</sup>.

One of the most important amenities for entrepreneurs, (engaged in commodities exchange with foreign countries), is the change of rules regarding the deadline for paying customs obligations. On 1<sup>st</sup> January 2003, the amended provisions of art. 231 of the Customs Code became effective. They were introduced on the basis of art. 1 para. 64 b of the law dated 22<sup>nd</sup> December 2000, amending the Customs Code, and the law on VAT and excise duty (Journal of Laws of 2001, No. 12, item 92). These regulations introduced a longer period for the payment of customs debt. This is a solution similar to these which are applied under the Customs Code of the European Community.

According to the current regulations, the payment should be made within 7 days from the date when the debtor is informed of its amount.

## Customs duties

The Customs Tariff applied in 2002 was based on the provisions of art. 13 of the Customs Code, similarly as during the previous years. The Customs Tariff maintained the existing, general rules for setting and levying the customs rates. The tariff defined five types of customs duty rates: autonomous, convention, preferential and reduced.

- In 2002, in the case of WTO, there has been another reduction of the conventional customs rates, provided for in the schedule. It was due to liberalisation of

<sup>15)</sup> Currently, appeals to the decisions issued by directors of customs offices are submitted to the directors of customs chambers, who act as 2<sup>nd</sup> degree appeal bodies. This allowed to liquidate arrears in considering appeals. The fact that some of the competencies of the central body – the former President of the Central Customs Office – by the directors of customs chambers, which function in each Province, facilitates the procedure for entrepreneurs with offices outside Warsaw. They would be able to settle their matters closer to the location of their business. An example is the procedure for granting a license for managing a customs warehouse, which so far was issued by the President of the Central Customs Office, and now is one of the competencies of the director of customs chamber.



customs duties for goods covered by the Information Technology Agreement. According to this Agreement, Poland started introducing reductions on 1<sup>st</sup> January 1998.

- For goods originating in the European Union Member States and in the countries of the EFTA, according to schedules for the said contracts, in 2002 customs duties for cars have been reduced again – for the last time. The customs duty rate for import of other industrial goods is set at 0%. Rates for a number of agriculture products have been reduced, in line with the Agreement dated 26<sup>th</sup> September 2000 on mutual liberalisation of trade in agricultural goods. In 2002, the level of customs duties for goods originating in the European Union did not change.
- For goods originating in the CEFTA countries, as of 1<sup>st</sup> January 1999, customs duties on most of the industrial goods remain unchanged (these goods are included in the 0% customs rate). For agriculture products, the levels of customs duties, resulting from the negotiated lists A, B and C of the CEFTA Agreement have been maintained. The only exception are the limited agricultural concessions<sup>16)</sup>.
- In 2002 the last stage of reduction of customs duties on goods imported from Turkey was implemented. This reduction covers textile goods, classified under sections 50–64. Imported from Turkey, they would be charged the 0% customs duty rate in 2002.
- On 1<sup>st</sup> April 2002, the agreement on establishing a Free Trade Area between Poland and Croatia came into force. Therefore, the customs tariff for 2002 contains a reduction of customs duty on goods originating in Croatia.

### **Changes introduced on 1<sup>st</sup> January 2003:**

Compared to 2002, the Customs Tariff for 2003 includes the following elements:

- In the case of WTO – the level of customs duties does not change,

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<sup>16)</sup> Contained in the Customs Tariff, for wheat and maize imported from the Czech Republic and Slovakia, sugar syrup imported from the Czech Republic and Slovakia; starch and starch products from the Czech Republic, Slovakia and Hungary; butter from the Czech Republic; tomato concentrate from the Czech Republic and Slovakia; and white sugar imported from the Czech Republic and Slovakia. They were introduced and notified to the CEFTA countries in 1997, 1998, 1999 and 2000, as import of these products caused excessive disturbances for domestic producers (art. 14 of the CEFTA agreement).

- for goods originating in the European Union – the level of customs duties does not change,
- for goods originating in the CEFTA countries, as of 1<sup>st</sup> January 1999, the customs duties on most of the industrial goods remain unchanged (these goods are included in the 0% customs rate). For agriculture products, the levels of customs duties, resulting from the negotiated lists A, B and C of the CEFTA Agreement have been maintained – with the same exceptions as in 2002, As a result of negotiations with Hungary, the 2003 Customs Tariff contains preferences for Hungarian products – pork and poultry meat, wheat and tomato concentrate - which result from the CEFTA Agreement.

### **Additional customs fee**

On the basis of the law dated 28<sup>th</sup> June 1995 on the rules, conditions and manner for levying additional customs duties on some imported agricultural products (Journal of Laws No. 98, item 485, and of 1999, No. 45, item 435), at the annual request of the Ministry of Agriculture, a special measure to protect the Polish agricultural market was introduced. This measure is the additional customs fee. In 2002, the additional customs fee was introduced on the basis of four ordinances (Journals of Laws of 2000: No. 38, item 355; No. 96, item 859; No. 122 item 1045 and No. 151, item 1255). The customs fee is applied to:

*Gallus domesticus* poultry; pork meat – fresh, refrigerated or frozen; poultry meat and edible giblets; birds eggs; cut flowers (roses and chrysanthemums); tomatoes – fresh or refrigerated; cucumbers and pickled cucumbers (cornichons) – fresh or refrigerated; wheat grain; flour made of bread wheat and spelt, wheat-rye flour; tomatoes processed or preserved (including tomato concentrate); flavoured or coloured sugar syrup; bran.

In 2003, additional customs fee was introduced on the basis of price clause, with respect to imported cucumbers, tomatoes and hen nestlings (Journal of Laws of 2003 No. 44, item 378).

### **Protective customs duties in 2002**

In 2002, protective customs duties (additional customs fees), introduced on the basis of the law on preventing excessive import of goods into the Polish customs area, were applied to the following products: shoes and electric irons from China, and some steel products, from all countries (until 2005).

In 2002, anti-dumping procedures, introduced on the basis of the law preventing excessive import of goods at dumping prices into the Polish customs area, were applied to the following products: cables made of synthetic polyester fibers imported from Belarus; cigarette lighters from China, Taiwan and Vietnam; and synthetic rubber from Russia and the Czech Republic.

## 2.6. Public Aid Granted to Entrepreneurs<sup>17</sup>

**Public aid** is defined as any benefit obtained by the entrepreneur from public authorities (granted by the state, or extended from the state's resources) – even when this aid is received from other entities, including private ones. The most important feature of such an aid is the public ownership of funds which are made available. The forms in which such benefits are granted are not regulated in any way. In case where the allocated aid does not comply with the rules, countries of the European Union are obliged to effect its return.

On 6<sup>th</sup> October 2002, the law dated 27<sup>th</sup> July 2001 came into force, on the conditions for admissibility and supervision of public aid for entrepreneurs (Journal of Laws No. 141, item 1177). The detailed scope of assistance is defined in ordinances which form the secondary provisions to this law. The provisions contained in that legislation shall remain in force only until Poland's full membership in the European Union. After the date of accession, the law of the EU shall apply.

The law on the conditions for admissibility and supervision of public aid did not introduce any significant changes to the currently applied procedures. It led to amore precise determination of many concepts and definitions, and introduced the concept of an aid programme. On the other hand, the law of 27<sup>th</sup> July 2002, similarly as the law that it replaced<sup>18)</sup>, eliminates to a large extent the freedom of decisions regarding the granting of aid, its beneficiaries and the scope in which it could distort competition. These regulations are meant to discipline public spend, which is very important, given the current condition of public finances. It should be stressed that the provisions of the law on public aid are not the basis to grant it – they only determine the conditions for its admissibility and regulate procedures for its supervision.

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<sup>17)</sup> The legal basis regulating public aid shall be discussed in full in the report on public aid granted to entrepreneurs in Poland in 2001. This report is being prepared by the Office for Competition and Consumer Protection.

<sup>18)</sup> The law dated 30<sup>th</sup> June 2000, on the conditions for admissibility and supervision of public aid for entrepreneurs (Journal of Laws No. 60, item 704).

The most important areas which the aid provided by the Minister of Economy focused upon in 2002 were:

- **restructuring of:**
  - the coal and non-coal mining sector
  - the steel and iron industry
  - the coke production
  - the industrial defense potential (IDP)
- **export promotion**
- **support for investment**
- **enterprise development**

In 2002, the value of public aid granted to entrepreneurs, which was the responsibility of the Ministry of Economy, amounted to a total of 987.6 million PLN. This constituted 9.6% of total public aid granted country-wide (10,277.6 million PLN).

**Table 18. Public Aid Granted to Entrepreneurs by Ministry of Economy**

Description	2000	2001	2002	2001/2000
<b>Total public aid (in million PLN of this:</b>	<b>1,696.9</b>	<b>1,267.6</b>	<b>987.6<sup>19)</sup></b>	<b>77.9%</b>
subsidies for the coal mining sector	1,505.3	1,123.2	823.1	73.3%
subsidies for the non-coal mining sector		85.7	65.4	76.4%
subsidies for restructuring of the steel and iron industry	34.5	25.4	2.4	9.3%
subsidies for restructuring of the coke industry	–	0.4	2.7	748.0%
subsidies for restructuring of Industrial Defense Potential (IDP)	–	4.7	–	–
subsidies for export promotion	20.3	26.5	41.2	155.1%
enterprise development	–	1.7 <sup>20)</sup>	0.0 <sup>21)</sup>	–
support for investment	–	–	52.8	–

– lack of data, or no aid was granted.

Source: Reports on public aid granted in 2000, 2001, 2002.

<sup>19)</sup> This assistance is provided directly by the Minister of Economy, without assistance granted under the PAED.

<sup>20)</sup> In 2001, the PAED provided additional public aid of 21.5 million PLN (of this, 19.5 million was allocated for the development of small and medium-sized enterprises).

<sup>21)</sup> Small and medium-sized enterprises received 16.3 thousand PLN directly from the budget of the Ministry of Economy. Public aid for this sector was taken over by the Polish Agency for Enterprise Development (PAED), which granted support of about 61 million PLN in 2002.

## 2.6.1. Subsidies for the mining sector

### 2.6.1.1. Hard coal mining

The programme of financial support for the hard coal mining sector is being continued from 1993. Subsidies for the coal mining sector are designated primarily to cover the costs of physical liquidation of mines, repair of mining damages and restructuring of employment.

By the end of 2002, the rules for granting aid for the coal mining sector in Poland were regulated by laws and ordinances, which formed the legal basis for implementing the government programme, "Reform of the hard coal mining sector in Poland in 1998–2002"<sup>22)</sup>. The main assumption of the programme is the restructuring of finances and employment, liquidation of unprofitable coal mines, and – as a result – achievement of a positive financial result by the sector.

According to the governmental programme, the financial support from the state budget for the basic areas of activity was to exceed 7.2 billion PLN in 1998–2002. This amount includes subsidies, which are set for the given year in the budgetary law, according to the provisions of art. 42 para. 1 of the law dated 26<sup>th</sup> November 1998, on adapting the hard-coal mining to functioning under market economy conditions and on special rights and tasks of the mining municipalities (Journal of Laws No. 162, item 1112 with subsequent amendments). The budgetary subsidy is allocated by the minister competent for economy.

**In 2002, under the public aid directed at entrepreneurs covered by the programme for restructuring the hard coal mining sector, the Minister of Economy granted subsidies for a total of 823.1 million PLN.**

The largest portion of public aid was allocated for employment restructuring (70.1%) and for physical liquidation of mines (20.1%). Enterprises from the hard coal mining sector used also public aid tied to: coal allowances for retired employees and disabled pensioners of mines completely closed down; balancing benefits,

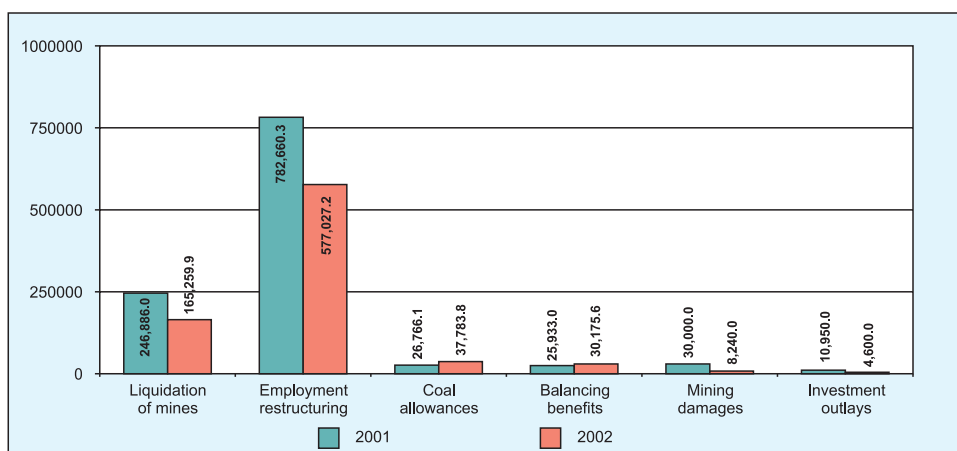
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<sup>22)</sup> On 20<sup>th</sup> November 2002, the Council of Minister adopted the Programme to restructure hard coal mining in Poland in 2003–2006. The program shall use anti-crisis legislation, and would initiate the privatization of some mines). The amendment resulting from the Agreement between the government with trade unions, concluded on 11<sup>th</sup> December 2002, and from the legal status of the sector as at 10<sup>th</sup> January 2003, was adopted by the Council of Ministers on 28<sup>th</sup> January 2003.

paid out by mines which are completely closed down; repairs of damages caused by mining; and investment outlays<sup>23)</sup>.

The lower level of support for the hard coal mining sector in 2002 was due to the lower costs of mines liquidation. This resulted from the progress in current liquidation work, and lack of new projects. In 2002, the number of persons profiting from the Miners' Social Package was reduced (in 2001, 5.3 thousand persons, in 2002 0.5 thousand persons), which reduced the expenses tied to restructuring of employment.

**Chart 10. Public aid granted in 2001–2002 in the form of budgetary subsidies to entrepreneurs of the hard coal mining sector, per subsidy purpose (in thousand PLN)**



### 2.6.1.2. Other mining and quarrying (non-coal)

The goal of the programme and the decision of the Minister of Economy, regarding the restructuring of the mining of salt, ores of zinc and lead, barite and brown coal, is to achieve – as soon as possible – economic effectiveness of part of the non-coal mining sector. The programme is meant also to liquidate the permanently unprofitable areas of activity, and to alleviate the effects of reducing the number of jobs; as well as to remove environmental threats<sup>24)</sup>.

<sup>23)</sup> Results of the implementation of the individual restructuring programmes are presented in the sub-chapter 3.2, "Restructuring of industrial sectors".

<sup>24)</sup> The liquidation of non-coal mines is done on the basis of the "Programme to restructure the mining and processing of sulfur in Poland", adopted by the Council of Ministers on 13<sup>th</sup> February 2001.

**In 2001, the total subsidies for liquidation of non-coal mines and for the financing of social covers for their employees amounted to 65.4 million PLN.**

Their largest portion was allocated for liquidation of mines (84.4% of the total amount).

In 2002, the funds designated for restructuring of employment were increased. This was due to the higher number of persons who obtained rights to profit from social benefits. Public aid allocated for this purpose accounted for 15.1% of the total resources designated for the enterprises of the non-coal mining sector.

### **2.6.2. Subsidies for the restructuring of the steel and iron industry**

Public aid provides an important support for the process of financial restructuring and the restructuring of employment in the steelworks<sup>25)</sup>. This aid is regulated by the ordinance of the Council of Ministers dated 15<sup>th</sup> October 2002, regarding the admissibility of public aid for the steel and iron industry (Journal of Laws No. 186, item 1549).

In 2002, the following rules for financing social benefits from the resources of Minister of Economy were applied:

- 50% of the statutory severance payments and anniversary rewards for employees leaving under programmes of pre-retirement benefits,
- monthly financial support for training contracts, covered under the PHARE subsidy, on the same level as the current unemployment benefit,
- 50% of benefit for vocational retraining in the case of training contracts not covered by PHARE subsidy.

According to the ordinance of the Minister of Economy, subsidies are provided for 19 steelworks<sup>26)</sup>. The aid funds were used to finance severance payments for

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<sup>25)</sup> The restructuring of the steel and iron industry is done on the basis of goals and action plan, contained in the "Programme for the restructuring of the steel and iron sector in Poland", adopted by the Council of Ministers in June 1998, and positively evaluated by the European Commission. The implementation of the programme was meant to help the industry achieve competitive production, while concentrating the sales of steel products on the domestic market. As a result of the changing economic situation, and trying to cope with the new requirements of economic policy, the Council of Ministers adopted the "Programme for the restructuring of the steel and iron sector in Poland – Update 2001" (on 5<sup>th</sup> June 2001). Another amendment to the Programme was adopted on 5<sup>th</sup> November 2002.

<sup>26)</sup> The Bankowa and Ferrum Steelworks did not sign contracts on subsidies with the Ministry of Economy, as they have implemented the planned employment reduction.

employees leaving under pre-retirement programmes, and to finance training contracts. **The total subsidies amounted to 2,355.1 thousand PLN**, and constituted less than 10% of the amounts disbursed a year earlier.

The low utilisation of the budgetary subsidy for employment restructuring in 2002 resulted from the increasing shortage of the steelworks' financial resources that could be used to co-finance the severance payments; and also from the significant organisational changes in the steel sector. The latter included the establishment of the holding Polskie Huty Stali S.A., which required the development of new business plans for the steelworks. These plans were subject to verification by experts of the European Union.

### **2.6.3. Subsidies for the restructuring of the coke industry<sup>27)</sup>**

In 2002, the budget subsidy provided by the Minister of Economy for the social covers for restructuring employment in coking plants included in the programme (KK Zabrze, ZK Pokój and ZK Wałbrzych) **amounted to 2,656 thousand PLN**. The largest portion of the allocated resources was used to finance conditional severance payments (1,948 thousand PLN). Other funds were used for severance payments for persons leaving under the pre-retirement benefits programme (205.3 thousand PLN) and for training contracts (502.5 thousand PLN).

### **2.6.4. Subsidies for the restructuring of Industrial Defense Potential (IDP)**

On the basis of the Programme for the restructuring of the industrial defense potential (IDP), adopted by the Council of Ministers on 9<sup>th</sup> February 1999, 4.7 million PLN was allocated for this purpose in 2001, from the budget of the Ministry of Economy. In 2002, companies of the industrial defense potential did not use public aid – despite the fact that target reserves included funds designated for the restructuring of IDP and for supporting the technical modernisation of the Polish Armed Forces. Such situation was due to the lack of necessary legal basis to transfer the said funds.

<sup>27)</sup> The programme for restructuring of the Polish coke industry was adopted by the Council of Ministers on 3<sup>rd</sup> October 2000. The goal of the programme is to make the coke enterprises competitive under market economy conditions; to improve their economic effectiveness, modernise the production potential and adapt it to demand, reduce negative environmental impact.



### 2.6.5. Export promotion

The priority goal of commercial policy is to increase Poland's share in international economic relations. This goal is contained in the Economic Strategy of the Government, adopted by the Council of Ministers in January 2002. This goal is to be attained by improving international competitiveness of products of domestic agriculture and industry, more effective promotion of Polish products and constant influx of foreign direct investments into Poland.

The Ministry of Economy, Labor and Social Policy conducts numerous activities, whose goal is to create the positive image of the Polish economy, development of foreign economic cooperation and the growth of Polish export (see the chapter "Implementation Instruments").

**In 2002, the total subsidies granted to entrepreneurs under current promotion from the funds of the Ministry of Economy amounted to about 41.2 million PLN – 55% more than during the previous year.**

### 2.6.6. Enterprise development

In 2002, almost all tasks tied to the financial support for the sector of small and medium-sized enterprises were taken over by the Polish Agency for Enterprise Development.

From the Agency's budget 48.8 million PLN was spent for granting public aid. Support granted in the form of direct subsidies and subsidies to interest rates on bank credits is designated primarily for the development of SMEs (about two-thirds of the total aid granted in 2002). Financial support was also provided for research and development works; to maintain current levels of employment, to create new jobs or to undertake new investment projects (or to create new jobs tied to such investments).

Regardless of the support under the Programme, small and medium-sized enterprises benefit also from other governmental programmes, such as the programme to combat unemployment, or programmes for restructuring of rural areas.

### 2.7.7. Support for investment

The year 2002 was the first year of implementation of the law dated 20<sup>th</sup> March 2002, on financial support for investment. Resources designated for this purpose

constitute public aid of regional nature<sup>28)</sup>. Funds disbursed to entrepreneurs in 2002 came from the budgetary reserve, set aside for applications received during the first phase – in August 2002. As a result, **contracts with 13 entrepreneurs were signed. The total value of support provided to them reached 52.8 million PLN.**

In the course of the year, 18 entrepreneurs signed contracts for support, and their total value reached 82.1 million PLN (see the chapter “Implementation instruments”).

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<sup>28)</sup> On its basis, financial support for a new investment project can be granted to an entrepreneur who is executing such project, worth no less than the equivalent of 10,000,000 euro; or in the case where the investment project applies to an enlargement or modernisation of an existing enterprise, and is tied to maintenance of at least 100 jobs, or 50 jobs if the investment is made in one of the support areas, for a period not shorter than 5 years, and its value is not smaller than the equivalent of 500,000 euro. Subsidies can be also granted for the financing of an investment project which creates at least 20 new jobs for no less than 5 years. Aid would also be provided to investments introducing technical innovations, or improving the condition of the natural environment. The new investment project must comply with at least two of the conditions listed below: have a positive influence on the economic development of the region; be located within the support area; introduce technical innovations; contribute to the development of cooperation with the domestic scientific and research organisations, or have significant influence on the local labour market.

Financial support granted to an entrepreneur making a new investment cannot exceed 50% of the maximum allowable volume of public aid, provided for regions requiring support. This in turn should stimulate the development of regions which are particularly neglected, in the economic sense. The new regulations are meant to support investment in technical innovations, which serve to improve the competitiveness of the Polish economy. Public funds are to be provided for the creation of new jobs (4,000 euro for one job) and for training (1,150 euro per one employee). Support can also be granted to a municipality - for the development and modernisation of technical infrastructure, directly tied to the supported investment project of a specific entrepreneur.

## Chapter 3

# INDUSTRY AND ITS RESTRUCTURING

### 3.1. General issues of industry

As a result of the economic transformation which commenced in 1989, Poland has a market economy dominated by the private sector. The importance of the small and medium-sized enterprise sector is growing, the Polish economy is becoming more open, and the upcoming membership in the European Union increases the trust among foreign investors.

***The functioning of industry in 1990–2002*** is characterised by the following positive developments:

- significant progress in the development of the private sector, as a result of privatisation of the state-owned enterprises, the establishment of new and development of already existing private enterprises. From 1997, the private sector dominates the Polish industry;
- positive general transformation trends in the structure of industry – mainly reduction of the share of production factors in the mining and quarrying sector in its results and outlays, while the share of production activity grew;
- within production activity – reduction of the share of low-processing sectors (such as metals), while the share of highly processed products, of such sectors as the electromechanical and chemical industry grows. These sectors are the drivers of technological progress for the whole economy;
- the significant (despite being variable over time) flow of foreign capital into the industry sector, in the form of foreign direct investments. This supports the development of the Polish industry. The distribution of these investments across the various sectors and areas of industry should also be deemed positive;
- increased share of enterprises with participation of foreign capital in production activity, and their positive influence on the development processes in industry, on production growth and modernisation, and also on export growth;
- relatively high growth of labor productivity (twice as high as in the whole economy), achieved under conditions of decreasing employment and improved technical equipment and improved labour effectiveness;

- reduced material consumption in production activity, especially in the processing industry and in the production and supply of electric energy, gas and water; improved productivity of fixed assets in the area of production activity.

***Evaluation of results achieved during the recent years (1999–2002)*** leads to the conclusion that the Polish industrial policy has made significant progress in the field of regulations, which are tied mainly to the *acquis communautaire*. Meanwhile, effective progress – expressed as the improvement of international competitiveness, and of factors which determine it – can hardly be deemed satisfactory.

Despite the execution of numerous projects, the gap in terms of international competitiveness, which separates Polish industry from the industry of the countries of the European Union, is still huge.

**The following issues still remain to be solved:**

- low level of privatisation in the traditional, capital-consuming sectors of industry, especially mining and quarrying, metallurgy, coke industry, processing of petroleum oil and the power sector;
- lack of the desired (from the economic perspective) processes of consolidation and concentration of the excessively scattered and weak business entities, in order to create stronger enterprises, able to compete in the domestic and foreign market;
- insufficient progress in modernisation of production, in increasing the share of new and modernised goods, especially the shortage of modern technology products in general industrial production, and in consequence also in export. This is the result of the low outlays into research, development and innovative activities in the industry sector, which have remained low for many years.
- overly single-directional activities undertaken by entrepreneurs to improve the competitiveness of their firms. They concentrate mainly on reducing labour costs (employment), and less on improving quality and modernizing their production, while adhering to the rule that productivity should increase faster than labour costs. Such activities lead to excessive reduction of employment in the industry sector, and rising unemployment.

## 3.2. Restructuring of industrial sectors

### 3.2.1. Hard coal mining

Transformation of the hard coal mining sector started in 1990. The production capacities of mines were excessively developed. In the beginning of 1990's, annual production exceeded 180 million tons. During the next years, the annual domestic demand for coal dropped to about 100 million tons. At the same time, the price relations in foreign markets became unfavourable, and the export sales of Polish coal were made at prices below production costs. The restructuring activities were meant to adapt the sector to functioning under the rapidly changing economic conditions.

From 1998, another programme for restructuring of the sector has been implemented: "Reform of the hard coal mining sector in Poland in 1998–2002". The goals of the programme included:

- 1) adaptation of enterprises operating in the sector of hard coal mining to economically effective functioning under conditions of a market economy; and the maintenance of the competitiveness of Polish coal in the domestic market
- 2) meeting until 2010 the domestic demand for hard coal, together with economically justified export.

In December 1999, the programme was modified. The updated programme included the following sub-goals, whose implementation was the condition for achieving the primary goals:

- 1) the coal companies would not incur losses on sales of coal, starting from 2001 at the latest,
- 2) in 2002, the coal companies would achieve positive net financial result,
- 3) production capacity of the hard coal mining sector would be reduced by 36 million tons of annual production, by 2002,
- 4) in 2000–2002, employment in the sector would be reduced by about 48 thousand workers,
- 5) the environmental influence of coal mines and damage to the natural environment would be reduced.

The restructuring programme, implemented in 1998–2002, did lead to the reduction of employment by more than 102 thousand workers, and to reduction of excessive production capacities by 34.5 million tons annually. Despite these achievements, the programme failed to solve the financial problems of this sector.

Quite to the contrary – it turned out that the coal companies failed to achieve a positive net financial result in 2002; and the debts of the coal mining sector – both towards the state and private entities – reached 22 billion PLN at the end of 2002.

It was necessary to immediately undertake further restructuring actions, as the debts of the sector threatened the system of public finances, and also the existence of a number of coal mines. This threatened with unpredictable outcomes for the whole economy, and in particular for Silesia.

Under such circumstances, the government commenced work on the programme for reform of the hard coal mining sector in 2003–2006. As a result, on 28<sup>th</sup> January this year, the Council of Minister adopted:

- “The programme to restructure hard coal mining in Poland in 2003–2006, with the use of anti-crisis legislation and initiation of the privatisation of some mines”,
- “Assumptions for the programme to alleviate the effects of restructuring employment in the hard coal mining sector for the Silesia region”.

The “Programme to restructure ....”, adopted by the Council of Ministers, contains the following major tasks:

- adapting the production capacities to the needs of the market, and adapting employment level to these capacities;
- financial restructuring and improvement of financial liquidity;
- introduction of structural and organisational changes.

One of the most important elements in the area of structural and organisational changes was the establishment, on 1<sup>st</sup> February this year, the company called Kompania Węglowa S.A. This company was established by way of contributing 23 mines and 9 plants, necessary for the production process. These entities formed the structures of the following coal companies: Gliwicka, Nadwiślańska, Rudzka and Rybnicka. 4 mining plants were moved from the Bytomska Grupa Kapitałowa (Bytom Capital Group).

The restructuring of hard coal mining is certainly a very difficult task for the government and for the regional authorities. However, further restructuring is necessary. In particular, the sector must undergo final and full cancellation of its debts towards state entities, before Poland becomes member of the European Union. It must also negotiate the agreement regarding the repayment of its debts towards private entities.

The current legislation on hard coal mining restructuring is not sufficient to implement tasks written into the program for restructuring this sector, which had been adopted by the Council of Ministers in January 2003. Thus, the Ministry of Economy, Labour and Social Policy has prepared a new draft law *on the restructuring of hard coal mining sector in 2003–2006, and on amendments to some legislation*. This draft had been accepted by the Council of Ministers, and sent to the Parliament for further consideration and adoption. This proposed law contains new legal foundations for the complex restructuring of the hard coal mining sector in 2003–2006. It covers the restructuring of finances, employment and organization, including the closing down of mines. The draft law guarantees also financial resources from the state budget, that would be allocated to implement these tasks.

### **3.2.2. The steel and iron sector**

The “Programme for restructuring the steel sector in Poland” had been approved by the Council of Ministers in June 1998 and received positive evaluation of the European Commission. It created the possibilities for achieving competitiveness in sales of steel products in the domestic market. The programme assumed that the financial resources, necessary for the restructuring process, would be obtained from privatisation of the steelworks’ production assets.

The implementation of the programme commenced during a particularly unfavourable period in the steel markets. Breakdown of prices exerted its influence on sales, and as a result, on the effectiveness of implemented processes. In 1999/2000, demand for steel products picked up. However, given the sharp competition of foreign suppliers in terms of prices and products, the rising market expectations were soon reflected in the fast growing import of steel products. The limited sales possibilities, coupled with the need to repay credits for already completed investment undertakings, significantly weakened the financial condition of steelworks. When strategic investors withdrew from projects which were priorities for the whole sector, this posed a threat for the implemented processes.

In an attempt to counteract these negative trends, the Council of Ministers adopted in June 2001 the “Programme for restructuring the steel sector in Poland – Update 2001”. This programme is supported by the law dated 24<sup>th</sup> August 2001 on the restructuring of the steel and iron sector (Journal of Laws No. 111, item

1196). It offered the possibility for conducting effective financial restructuring of the indebted steelworks, and for the consolidation of their production potential, in line with global trends. This consolidation should guarantee reduction of costs due to the synergy effect; and as a result to increased competitiveness of the products of the Polish steel sector.

However, the downward move of import prices turned out to be a serious threat for the still not restructured sector. As many countries were implementing protective procedures, this caused a significant increase of import of metallurgical products to Poland.

The Council of Ministers decided this was a crisis situation, and the programme for restructuring the steel sector would be extremely difficult to implement. In March 2002, it approved another "Programme for restructuring the steel sector in Poland – Update 2002".

This document speaks of the need to implement radical, immediate solutions that would allow Polish steelworks to survive, while the government restructuring programmes of other sectors (such as mining, power and the state railways) are coordinated. This document contained short-term goals for 2002–2003; and programme with strategy guidelines until 2010. The basic elements of the long-term strategic programme remained unchanged. However, the conditions for their effective implementation require the consequent implementation of short-term goals. The latter ones include the improvement of the economic and financial condition of Polish steelworks, and a product-oriented consolidation of the sector's basic capacities.

The concept of accelerating the consolidation of the steel sector led to the creation of the company "Polskie Huty Stali S.A." (PHS S.A.) by the State Treasury. PHS S.A. was created from the four steelworks: Katowice S.A., the T. Sendzimira S.A., Florian S.A. and Cedler S.A. This allowed to better use the production potential and to improve the effectiveness of materials flow. The synergy effect led to a reduction of costs.

The programme for the steel sector was the object of consultations with the European Union, tied to the closing of negotiations on "Competition Policy". The Council of Ministers received, on 20th August 2002, the document called "Guidelines for the Modifications to the Programme for Restructuring the Steel Sector in Poland". This document took in consideration the current market conditions, and the worsening condition of the steelworks. It was used as the basis



for the document approved by the Council of Ministers on 5<sup>th</sup> November 2002, "Amendments to the Programme for Restructuring the Steel Sector in Poland".

This document states that the most important element is the financial restructuring, to the extent necessary for the further functioning of the steelworks, coupled with liquidation of ineffective production capacities.

The government consulted the opinion of the European Commission. On the basis of their joint decision, the document "Restructuring and Development of the Steel and Iron Sector Until 2006" was adopted by the Council of Ministers on 10<sup>th</sup> January 2003. It was amended on 25<sup>th</sup> March 2003. This document lists seven steelworks ("PHS", "Bankowa", "Batory", "Buczek", "L.W.", "Łabędy" i "Pokój") which would be the beneficiaries of state aid until the end of 2003.

These steelworks have shown in their business plans the ability to achieve profitable operations upon completion of the restructuring process.

As a result of the consolidation strategy for the steel sector, adopted by the Polish Government, the company "Polskie Huty Stali" S.A. was founded on 31<sup>st</sup> December 2002. This move was the basis to commence privatisation procedures of this company as a single enterprise.

On 21<sup>st</sup> December 2002, invitations to submit preliminary offers for the privatization of "Polskie Huty Stali" S.A. were mailed to a selected group of 12 global enterprises operating in the steel and iron sector. The letters were sent by the Ministry of State Treasury, in cooperation with the Ministry of Economy.

The inter-ministerial team in charge of privatisation of "PHS" S.A. opened the received offers on 11<sup>th</sup> February 2003. Following that, 3 companies were selected for the shortlist: United States Steel Corporation, LNM Holding N.V. – member of the LNM Group, and ARCELOR S.A. The companies were obliged to submit binding offers.

Following the analysis of submitted documents, two companies were allowed to participate in further privatisation procedure: United States Steel Corporation and LNM Holding N.V.

In the beginning of July 2003, the Minister of the State Treasury decided to grant exclusive negotiations right to LNM Holding N.V., until 22<sup>nd</sup> August 2003.

Regardless of the above, in June 2003 four foreign investors, interested in purchasing the Huta Stali Częstochowa Ltd. (the Częstochowa Steel Mill), received letters inviting them to submit offers. Finally, in September 2003, the Polskie Huty Stali company was sold to the LNM group, which is the second-largest global steel producers.

In the steelworks included in the programme, the level of employment at the end of 2002 reached 30 thousand persons. In 1999–2002, a total of 107 million zloty was spent from the state budget for financial support for employment restructuring. Until the end of 2003, 23 million PLN would be spent for further, necessary rationalisation of employment. By the end of 2006, another 70 million PLN would be allocated for this purpose.

### **3.2.3 The excavation and processing of sulfur**

The restructuring of the excavation and processing of sulfur has been conducted from the early 1990's. The problems of the Polish sulfur sector are due, among others, to the fact that the mined sulfur is pushed out of the market by cheap recycled sulfur (obtained during the desulfurisation process of petroleum oil and gas). Since mid-1980's, prices of this natural resource began to drop, and the export of sulfur from Poland also decreased (from the level of 5.0 million tons, sold at about 150 USD/ton, to about 0.7 million tons, while prices dropped several times).

The effect of these occurrences is a gradual decrease of sulfur production (until August 2001) in two enterprises which excavate and process sulfur: the KiZPS - Sulfur Mine and Processing Enterprise - "Siarkopol" in Tarnobrzeg (currently under liquidation proceedings) and the KiZChS "Siarkopol" in Grzybów.

This process is accompanied with very significant reduction of employment.

Aside from the production companies, there are 3 enterprises in the sulfur sector which deal exclusively with the liquidation of defunct workings and the reclamation of land. These are: KS "Machów", KS "Grzybów" and PRTG "Jeziórko", which together employed about 1300 workers in the years 1994–1999. The "Program for restructuring sulfur mining and processing in Poland", adopted by the Council of Ministers on 13<sup>th</sup> February 2001<sup>1)</sup>, is an attempt to solve the problems of the sulfur industry.

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<sup>1)</sup> Earlier, on 14<sup>th</sup> July 2000, a law came into force that had been passed at the initiative of some deputies, that sets forth the rules and conditions for financial restructuring of entities of the sulfur mining sector. However, as the manner of financing was changed (due to lack of budgetary resources), the government moved to change the provisions of this law. Work is underway.

The goals of the programme are:

- To bring back to economic effectiveness the widest possible part of the sulfur mining and processing sector, and to liquidate the permanently unproductive areas of activity;
- To maximally alleviate (for the employees of the sulfur sector and the local job markets) the effects of rapidly decreasing number of jobs in the sulfur industry, in case when the production program of these enterprises is seriously reduced;
- To remove environmental threats, which arose as a result of excavation of sulfur in strip mines and open pits; and to guarantee the reclamation of degraded land.

### **3.2.4. Industrial defence potential (IDP)**

Despite lack of significant outcomes of the subsequent restructuring programmes, some structural changes occurred after 1990 in the defence sector – especially in the areas of assets, production and employment. In general, the IDP is still not adapted to market reality, which is seen in: (a) problems with sales of products and (b) surplus of production capacities, exceeding actual needs, which are defined by the volume of orders from domestic and foreign buyers. In consequence, the resources of production factors are used to a relatively small extent. Coupled with the high costs of their maintenance, this does not guarantee sufficient profitability of the production of armament and military equipment.

These factors lead to the bad, and progressively worsening, economic and financial situation of most enterprises of this sector. This situation is characterised with the following occurrences: (a) insufficient level of revenues which do not cover production costs. As a result, the sector generates increasingly high losses; (b) indicators of financial liquidity are below the required level, which proves that IDP companies encounter problems with repayment of their current obligations; and (c) high level of liabilities.

In May 2002, the Council of Ministers adopted the document *“Strategy of structural transformations of the industrial defense potential in 2002–2005”*.

The main element of the Strategy (...) is the capital consolidation of a specified part of the industrial defense potential, linked with necessary restructuring actions. Under the consolidation process, two capital structures have been created: the ammunition, missile, artillery and armoured forces group, in which the Foreign

Trade Enterprise BUMAR Sp. z o.o. plays the dominant role; and the aviation, radio and electronics consortium, centered around Industrial Development Agency (ARP S.A.).

The cumulated capital, technical, production, marketing and commercial resources of these groups can create conditions that would help to overcome the economic, financial and technological obstacles, which hindered the development of the defense sector so far.

The process of consolidation of the IDP has been broken down into two phases. The first included companies whose economic and financial situation was stable. During this phase, the State Treasury contributed its shares/stocks in 9 production companies and 1 commercial company into the increased capital stock of BUMAR Sp. z o.o. The share capital of ARP S.A. was increased with the shares/stocks of 4 production companies and 1 commercial company. Companies which require far-reaching restructuring will be able to enter the groups only during the second phase of consolidation, after completing the process of structural changes, which would also include debt cancellation.

*Cancellation of debts is supported with the solutions contained in the law dated 30<sup>th</sup> August 2002, on the restructuring of certain public liabilities of entrepreneurs. Under this law, 13 companies from the defence sector filed motions for being included in debt restructuring processes. Three other companies of the defence sector want to profit from the debt cancellation opportunity under the law dated 30<sup>th</sup> October 2002, on public aid for entrepreneurs of particular importance for the job market. This law is addressed to firms which employ at least 1000 workers.*

Part of the companies of the defence sector would not participate in the sector's capital consolidation. Those companies would undergo privatisation, in some cases linked to restructuring activities. These activities will, primarily, attempt to secure the mobilisation needs of the economy; and secondly, to increase the attractiveness of the companies' assets. This should facilitate the search for investors ready to engage serious capital resources.

This is very important, as the defence sector did not, so far, enjoy high interest among investors – including foreign ones. As a result, only two companies of the sector were privatised so far. Most of the financial resources obtained during privatisation process should be – according to the current law – used to support the restructuring processes of the defense sector, and the technical modernisation of the Polish Armed Forces.

The activities of the consolidated structure of the IDP will be financed from the following sources:

- revenues on contracts executed for domestic buyers, mainly the Ministry of National Defence, the Police and the Border Guard,
- revenues obtained from the execution of offset obligations of foreign suppliers of armament for the Polish Armed Forces,
- revenues on export of weapons.

The restructuring of the industrial defence potential will be supported with revenues obtained from privatization of companies of this sector. According to the law dated 7<sup>th</sup> October 1999 *on the support for restructuring the industrial defence potential and technical modernisation of Polish Armed Forces*, these revenues must be used for the restructuring of the defense sector.



## Chapter 4

# CONSTRUCTION

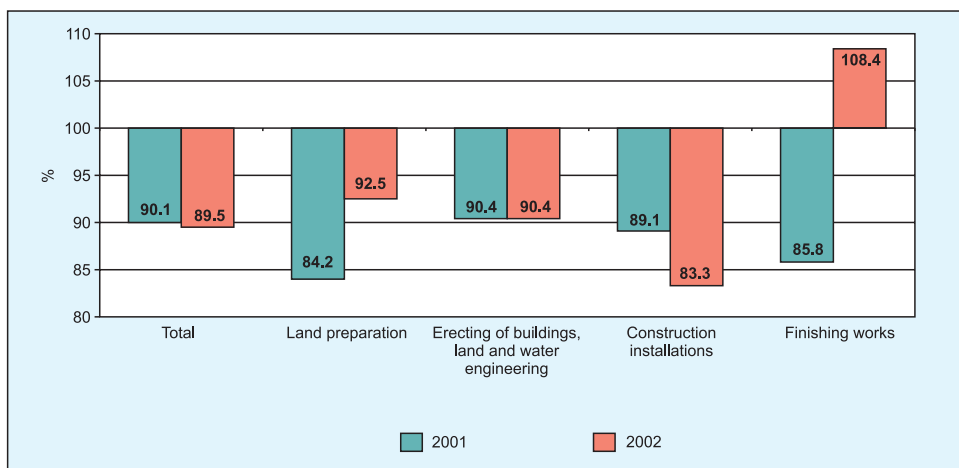
### 4.1. Dynamics and structure of the construction and assembly production

The year 2002 was the second subsequent year – within a decade – during which a decline was registered in the construction and assembly production (including investment and renovation works). In 2002, construction and assembly production was lower by 8.7% compared to the previous year (in 2001, the decline reached 11.7%). The value of gross production added dropped by 7.5% (in 2001, the decline reached 7.9%).

In the public sector, production dropped by about 15% (compared to a decline of 32.1% in 2001); and in the private sector – by 8% (compared to 10.9% in the previous year). Starting from 1995, the share of the private sector in the total value of the construction and assembly production has been rising. In 2002, the share amounted to 97.0%, compared to 87.6% in 1995.

In construction companies employing more than 9 workers, production was lower by 10.5% than in 2001 (8.9% a year earlier).

**Chart 11. The structure of construction and assembly production in enterprises with more than 9 workers, in 2001–2002**



Source: Information on the social and economic situation of the country, 2002, CSO, p. 67.

A decline in the construction and assembly production, compared to 2001, caused the largest decrease of average employment in the enterprise sector. It amounted to 12.3% (8.0% in 2001), whereas in the whole enterprise sector, this reduction amounted to 4.4%. The financial results also became worse.

The negative gross financial result became even larger: from -54.4 million PLN in 2001 to -832.8 million PLN; and net financial result from -636.3 million PLN to -1,179.8 million PLN.

After the six months of 2003, the results of construction and assembly production still look bad (a decline of 14.0%), but in June 2003, a change in the overall trend was seen – the decline reached only 1.2%.

## 4.2. Housing construction

In the area of housing construction, the results were worse than in 2001. The number of completed housing units reached 97,545 – a decline of 8,372 (7.9%) compared to 2001 (compared to a 20.9% increase in 2002).

**Table 19. Number of completed housing units, per forms of construction in 2002 and 2001**

Forms of residential construction	2001		2002	
	Number of units	2000 = 100	Number of units	2001 = 100
Total	105,967	120,9	97,595	92,1
Individual	40,642	114,8	52,433	129,0
Designated for sale or rental	29,403	141,9	21,970	74,7
Cooperative	25,835	106,6	15,406	59,6
Social rental	6,765	164,3	4,653	68,8
Municipal	2,318	119,9	2,525	108,9
Owned by enterprises	1,004	83,3	608	60,6

Source: *Housing construction 1st – 4th quarter 2002, CSO 2003, p. 5*  
*Small Statistical Yearbook of the CSO 2003.*

During the first half of 2003, a significant increase in the number of completed residential units was achieved. The highest increase was achieved in individual housing, housing for sale or rental; and the lowest in cooperative housing.



This is illustrated in the table below:

**Table 20. The number of flats rendered for use in the 1<sup>st</sup> six months of 2002 and 2003**

Forms of residential construction	January – June 2002	January – June 2003	
	Number of units	Number of units	January – June 2002 = 100
Total	42,794	64,075	149.7
Individual	20,322	44,743	220.2
Designated for sale or rental	10,015	10,498	104.8
Cooperative	8,615	5,437	63.1
Other *)	3,842	3,397	88.4

\*) owned by enterprises, municipal, social rental.

Source: *Statistical Bulletin of the Central Statistical Office, no. 6 – 2003, p. 128.*



## Chapter 5

# AGRICULTURE

In 2002, the main factors shaping the situation in agriculture were the high supply of grains, increase in the population of pigs and growing poultry production. The number of cattle livestock dropped. **According to preliminary data of the Central Statistical Office, global agricultural production in 2002 was lower both compared to results of 2001 (by 1.8%), and to the level of 1995 (by 1.1%).** The decline is due to a reduction in plant production by 8.7%, while animal production rose by 5.7%. The drops of most agricultural products were on a lower level than a year earlier. Better results have been achieved in the production of pig and poultry livestock.

**Table 21. Dynamics of agriculture production in 1995–2002**

	1995	1996	1997	1998	1999	2000	2001	2002
Agricultural production	110.7	100.7	99.8	105.9	94.8	94.4	105.8	98.2
Plant production	112.2	101.7	95.8	109.2	91.3	94.2	108.6	91.3
Animal production	108.7	99.2	105.4	102.2	99.1	94.7	102.5	105.7

*Source: Assessment of the social and economic situation in 2002, including elements of forecast for 2003, Government Centre for Strategic Studies; Information on the social and economic situation of the country 2002, CSO, Warsaw; Concise Statistical Yearbook – Poland 2003.*

**Table 22. The harvest of basic plant products in 2002**

Specification	Harvest	
	in millions tons	2001 = 100
Total grains	26.9	0.95
Rapeseed and oil-yielding rape	15.5	13.4
Potatoes	3.9	3.0
Sugar beets	99.7	89.3
Vegetables	80.1	118.2
Fruit	76.0	88.2

*Source: Assessment of the social and economic situation in 2002, including elements of forecast for 2002, Government Centre for Strategic Studies; Information on the social and economic situation of the country 2002, CSO, Warsaw; Concise Statistical Yearbook – Poland 2003.*

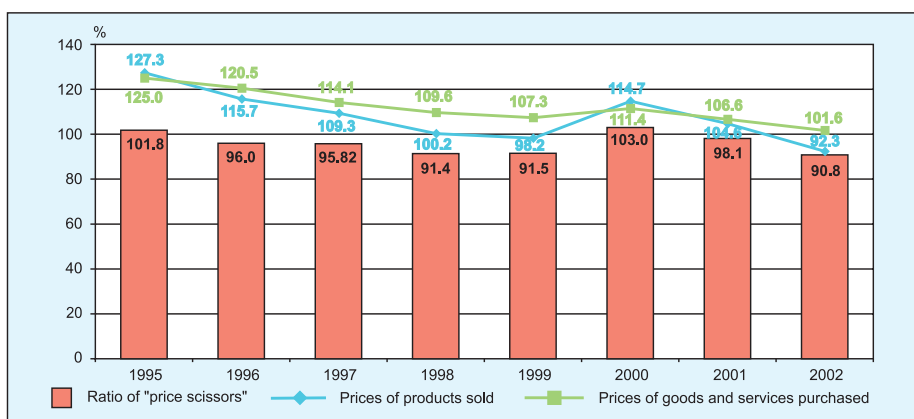
During the 12 months of 2002, the total purchases of grains amounted to 6,971 thousand tons<sup>1)</sup>, which was 13.3% more than a year ago. Of this total value, purchases of wheat amounted to 5,439 thousand tons (13% more than in 2001); and of rye to 872 thousand tons (an increase of 8.3%).

In **animal production**, the year 2002 brought an increase in the production of slaughter livestock – by 7.4%, compared to 2001. Of this, production of pig livestock rose by 7.8%, and poultry by 18.7%. Production of cattle livestock (beef) dropped by about 8%.

The purchases of slaughter livestock increased by 14.8%. This is attributed primarily to higher purchases of poultry (by 20.4%) and pig livestock (by 15.9%). The purchases of cattle livestock dropped by a few percent, compared to last year's results.

High supply of agricultural products on the market had an influence on their prices. The average prices of grains in 2002 were lower by about 14%, compared to the results of 2001. The purchase prices of livestock also dropped: by 17.9% in the case of pigs, and by 13.2% for poultry. **As a result, the average prices of agricultural products sold by individual farmers dropped in 2002 by 7.7%, while the prices of goods and services purchased by these farmers dropped by 1.6%. This worsened the ratio of prices of products sold to products bought. The "price scissors" ratio dropped to 90.8%.**

**Chart 12. Dynamics of the prices of sold products and the prices for goods and services purchased by farmers; and the ratio of the "price scissors" in 1995–2002**



Source: Information on the social and economic situation of the country, 2002, Central Statistical Office, Warsaw.

<sup>1)</sup> Basic grains (excluding seed grain), including grain mixes.

## Chapter 6

# FOREIGN TRADE

## 6.1. Results of the commodities exchange in 2002 and in 1<sup>st</sup> half of 2003

The year 2002 brought a revival of turnover in foreign trade in comparison to 2001. This revival was visible both in terms of payments (according to data of the National Bank of Poland), and in terms of commodities (on the basis of customs statistics, SAD documents). This tendency remained in force throughout the 1<sup>st</sup> half of 2003. Results achieved during the 1<sup>st</sup> half of 2003 turned out to be record-high, unseen before.

**Table 23. Foreign trade turnover in 2001–2002 and in the 1<sup>st</sup> half of 2003**

Year	NBP data					Customs data				
	in USD million			Dynamics previous year = 100		in USD million			Dynamics previous year = 100	
	Export	Import	Balance	Export	Import	Export	Import	Balance	Export	Import
2001	30,275	41,950	-11,675	107.1	101.3	36,092	50,275	-14,183	114.0	102.7
2002	32,945	43,297	-10,352	108.9	103.2	41,010	55,113	-14,103	113.6	109.6
1st half of 2003	19,239	23,899	-4,660	129.5	121.2	23,903	30,718	-6,815	126.9	120.4

Source: Foreign Trade Information Centre National Bank of Poland (NBP).

The main conditions influencing foreign trade include:

- in 2002:
  - low domestic demand (growth of 0.9% in 2002, following a decline of 1.7% in 2001), which forced enterprises to export;
  - clearer weakness of PLN zloty in relation to the euro (by over 5%) – as the dominant currency in trade settlements (about 70%);
  - strengthening of euro in relation to the US dollar (by 5.5%) caused a statistical increase of turnover dynamics (by about 4% in export and 3.5% in import), as a result of currency change from the stronger euro to the weaker dollar;

- the poor economic situation in external markets, especially in Germany (where GDP grew by only 0.2%), and the resulting limited external demand;
- after the 1<sup>st</sup> half of 2003:
  - still weak economic situation, especially in the countries of the EU;
  - changes in the global prices of primary raw materials, due to the war in Iraq. prices of petroleum oil and natural gas rose significantly compared to the 1<sup>st</sup> half of 2002 (from 148 USD/ton to 193 USD/ton; and from 154 USD/1000 mł to 189 USD/1000 mł, respectively);
  - slight revival of internal demand. It is estimated that in the 1<sup>st</sup> half of 2003 individual consumption rose by about 1.7%;
  - PLN still remained weak; devaluation of PLN in relation to the two main currencies, by over 3.2% to the US dollar and by 9.1% to the euro (in nominal terms);
  - improved competitiveness of export, during that time attributed mainly to the decrease of unit labor costs.

## 6.2. Geographical structure of Poland's commodities turnover

For a number of years, the volume of Poland's trade exchange and the size of its trade deficit was determined by the turnover achieved in exchange with countries of the European Union, and with developing countries.

In the case of the countries of the European Union this ratio, measured as deficit to export, was reduced significantly (to -20.6% in 2002 and to -13.1% after the first half of 2003). However, in the case of trade with developing countries, the deficit ratio still remains on a very high level (-188% in 2002 and -179% after the first half of 2003).

**The countries of the European Union** *constitute the main outlet market for the Polish export* (about 69% of total export), and at the same time the chief supply market for the Polish economy (about 61% fifths of total import). This market has also a very significant influence on the foreign trade deficit (41.3% of the total deficit is attributable to countries of the European Union).

**Table 24. Turnover in trade with countries of the European Union in 2001–2002 and during the 1<sup>st</sup> half of 2003**

turnover in million USD

Country	2001		2002			Dynamics in % (2001 = 100)		Share in %		1st half of 2003		
	Export	Import	Export	Import	Balance	Export	Import	Export	Import	Export	Import	Balance
<b>TOTAL</b>	<b>24,986.8</b>	<b>30,865.1</b>	<b>28,180.9</b>	<b>33,998.5</b>	<b>-5,817.6</b>	<b>112.8</b>	<b>110.2</b>	<b>100</b>	<b>100</b>	<b>16,665.9</b>	<b>18,848.7</b>	<b>-2,182.8</b>
Germany	12,414.1	12,045.6	13,248.4	13,402.4	-154.0	106.7	111.3	47.0	39.4	7,827.7	7,509.6	318.1
France	1,953.7	3,421.8	2,473.0	3,840.7	-1,367.7	126.6	112.2	8.8	11.3	1,515.1	2,203.3	-688.2
Italy	1,948.3	4,148.9	2,256.4	4,613.1	-2,356.7	115.8	111.2	8.0	13.6	1,336.1	2,577.2	-1,241.1
Great Britain	1,799.7	2,092.5	2,126.3	2,142.1	-15.8	118.1	102.4	7.5	6.3	1,140.9	1,129.0	11.8
The Netherlands	1,706.5	1,785.6	1,841.3	1,934.7	-93.4	107.9	108.4	6.5	5.7	1,145.3	1,030.4	114.9
Belgium	1,114.1	1,368.8	1,329.7	1,529.1	-199.4	119.4	111.7	4.7	4.5	771.7	831.6	-59.9
Sweden	984.3	1,350.8	1,328.6	1,457.8	-129.2	135	107.9	4.7	4.3	888.0	837.1	50.9
Denmark	933.1	880.6	1,134.3	955.4	178.9	121.6	108.5	4.0	2.8	637.9	455.7	182.3
Austria	732.2	983.0	752.2	1,056.2	-304.0	102.7	107.4	2.7	3.1	430.0	600.4	-170.4
Spain	581.4	1,283.5	723.9	1,459.1	-735.2	124.5	113.7	2.6	4.3	445.5	822.1	-376.6
Portugal	260.4	161.0	364.2	202.5	161.7	139.9	125.8	1.3	0.6	208.6	115.1	93.5
Finland	299.0	848.8	283.7	857.0	-573.3	94.9	101	1.0	2.5	150.2	459.6	-309.4
Greece	124.3	131.3	149.7	148.7	1.0	120.4	113.3	0.5	0.4	67.9	75.5	-7.6
Ireland	104.0	292.4	124.6	322.9	-198.3	119.8	110.4	0.4	0.9	75.0	156.4	-81.3
Luxembourg	31.6	70.4	44.5	76.8	-32.3	140.8		0.2	0.2	26.1	45.9	-19.7

*Source: data of the Central Statistical Office.*

Contrary to the previous years, when the negative trade balance in exchange with the countries of the European Union was significantly reduced (by 5.9 billion USD in 1998–2001), in 2002 this process slowed down (deficit was reduced by barely 61 million USD, compared to 2001). Germany is the main commercial partner of Poland. Its share in the total export to the countries of the EU is close to 50%, and import from Germany amounts to 40% of total import from the EU. In 2002, contrary to the results of 2001, commercial exchange with this country became worse. The positive trade balance of 2001 turned into a deficit of 154 million USD (balance worsened by over 0.5 billion USD). After the 1<sup>st</sup> half of 2003, the trade balance is positive again.

In 2002, the export to countries of the **former USSR – mainly to Russia** – was very important for the reduction of foreign trade turnover and for the overall growth

of export. Commercial exchange with Russia determines the trade with countries of the former USSR. From 2000, export to these countries (following a radical decline due to the economic and financial crisis in Russia) was systematically rebuilt, and reached the level of 4.3 billion USD in 2002. It is still lower by 180 million USD than in 1997. The year 2002 was the second subsequent year during which deficit in turnover with these countries was reduced (a decrease by 1.5 billion USD in 2001–2002). This was due to the reduced value of import from Russia, as a result of decrease of the average prices of petroleum oil and natural gas in the global markets. The opportunities for progress in balancing the results of trade exchange with countries of the former USSR – mainly with Russia - are seriously limited over the coming years, due to the structure of import from that country. They depend almost solely on the growth of Polish export.

**Table 25. Turnover in trade with countries of the former USSR**

turnover in million USD

Description	2001			2002			1st half of 2003		
	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
<b>Countries of the former USSR</b>	<b>3,599.4</b>	<b>5,594.1</b>	<b>-1,994.8</b>	<b>4,277.8</b>	<b>5,562.0</b>	<b>-1,284.2</b>	<b>2,367.4</b>	<b>3,316.2</b>	<b>-948.7</b>
Previous year = 100	121.6	97.4		118.8	99.4		123.7	132.6	
Share in Poland's turnover in %	10.0	11.1		10.4	10.1		9.9	10.8	
of this:									
<b>Countries of the CIS</b>	<b>2,510.0</b>	<b>5,243.6</b>	<b>-2,733.6</b>	<b>2,939.8</b>	<b>5,293.7</b>	<b>-2,353.9</b>	<b>1,576.1</b>	<b>3,141.2</b>	<b>-1,565.2</b>
Previous year = 100	119.5	97.1		117.1	101.0		118.9	132.0	
Share in %	7.0	10.4		7.2	9.6		6.6	10.2	
<i>Russia</i>	<i>1,058.7</i>	<i>4,422.3</i>	<i>-3,363.6</i>	<i>1,331.8</i>	<i>4,396.8</i>	<i>-3,065.0</i>	<i>688.3</i>	<i>2,530.3</i>	<i>-1,842.0</i>
Previous year = 100	122.8	95.7		125.8	99.4		108.4	127.2	
Share of the group in %	42.2	84.3		45.3	83.1		43.7	80.5	
<i>Ukraine</i>	<i>1,002.7</i>	<i>449.3</i>	<i>553.4</i>	<i>1,180.5</i>	<i>491.5</i>	<i>689.0</i>	<i>614.2</i>	<i>342.1</i>	<i>272.1</i>
Previous year = 100	125.6	94.5		117.7	109.4		119.6	165.7	
Share of the group in %	39.9	8.6		40.2	9.3		39.0	10.9	
<i>Belarus</i>	<i>276.0</i>	<i>145.4</i>	<i>130.6</i>	<i>260.7</i>	<i>227.0</i>	<i>33.7</i>	<i>167.1</i>	<i>175.2</i>	<i>-8.1</i>
Previous year = 100	113.2	94.6		94.5	156.1		149.1	177.5	
Share of the group in %	11.0	2.8		8.9	4.3		10.6	5.6	
<i>Kazachstan</i>	<i>62.5</i>	<i>103.2</i>	<i>-40.8</i>	<i>61.9</i>	<i>95.0</i>	<i>-33.1</i>	<i>37.0</i>	<i>59.5</i>	<i>-22.5</i>
Previous year = 100	100.4	130.9		99.1	92.0		142.1	143.9	
Share of the group in %	2.5	2.0		2.1	1.8		2.3	1.9	

cont. ➡



Description	2001			2002			1st half of 2003		
	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
<b>The Baltic countries</b>	<b>1,089.3</b>	<b>350.6</b>	<b>738.7</b>	<b>1,338.0</b>	<b>268.3</b>	<b>1,069.7</b>	<b>791.4</b>	<b>174.9</b>	<b>616.5</b>
Previous year = 100	126.9	101.4		122.8	76.5		134.4	144.3	
Share in Poland's turnover in %	3.0	0.7		3.3	0.5		3.3	0.6	
<i>Lithuania</i>	756.5	277.5	479.0	933.1	191.4	741.7	556.4	131.4	425.1
Previous year = 100	134.7	99.8		123.3	69.0		137.0	153.2	
Share of the group in %	69.5	79.2		69.7	71.3		70.3	75.1	
<i>Latvia</i>	228.7	33.5	195.2	283.2	37.7	245.5	154.6	20.2	134.4
Previous year = 100	110.5	102.1		123.8	112.5		120.8	168.9	
Share of the group in %	21.0	9.6		21.2	14.1		19.5	11.6	
<i>Estonia</i>	104.1	39.5	64.5	121.7	39.2	82.5	80.3	23.3	57.0
Previous year = 100	115.5	113.3		116.9	99.1		146.4	142.2	
Share of the group in %	9.6	11.3		9.1	14.6		10.2	13.3	

Source: data of the Central Statistical Office.

During the 1<sup>st</sup> half of 2003, export to the countries of the former Soviet Union rose, compared to the same period of the previous year, by 24%, reaching the level of 2.4 billion USD. Import from these countries (after a decline in the 1<sup>st</sup> half of 2002) rose by 33%, to the record level 3.3 billion USD. As a result, trade deficit with this group of markets deepened to almost 1 billion USD. This was due primarily to the higher prices of petroleum oil and natural gas.

Commercial exchange with the **Baltic states** (Lithuania, Latvia and Estonia) is developing much better than with the countries of the CIS. Export to these countries is growing systematically, measured both for the whole group and separately for each country.

During the 1<sup>st</sup> half of 2003, commercial exchange with the Baltic republic improved further, compared to the same period of the previous year. Export to these countries was five times higher (reaching a level close to 0.8 billion USD) than import from these countries (175 million USD).

In 2002, the trade exchange with countries associated in the **CEFTA** was favorable. Systematic growth of turnover with countries from this group (both in export and import) leads to the gradual reduction of exchange deficit (negative trade balance was cut back by over 0.5 billion USD over the last 4 years).

During the 1<sup>st</sup> half of 2003, export to the CEFTA countries reached 2.2 billion USD, and rose by 35% – faster than total exports, and 1.5 times higher than export from CEFTA countries. As a result, trade deficit was further reduced, to the level of 128 million USD.

**Table 26. Foreign trade turnover with CEFTA countries in 2001–2002, and in the 1<sup>st</sup> half of 2003**

turnover in million USD

Description	2001			2002			1st half of 2003		
	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
<b>CEFTA</b>	<b>3,148.7</b>	<b>3,743.6</b>	<b>-594.9</b>	<b>3,641.7</b>	<b>4,039.4</b>	<b>-397.7</b>	<b>2,168.7</b>	<b>2,296.5</b>	<b>-127.8</b>
Previous year = 100	118.3	108.1		115.7	107.9		135.0	123.8	
Share in Poland's turnover in %	8.7	7.4		8.9	7.3		9.1	7.5	
<i>Czech Republic</i>	<i>1,431.9</i>	<i>1,737.6</i>	<i>-305.7</i>	<i>1,639.9</i>	<i>1,787.8</i>	<i>-147.9</i>	<i>930.7</i>	<i>1,003.5</i>	<i>-72.8</i>
Previous year = 100	119.5	111.2		114.5	102.9		127.2	122.8	
Share of the group in %	45.5	46.4		45.0	44.3		42.9	43.7	
<i>Slovakia</i>	<i>516.7</i>	<i>756.0</i>	<i>-239.3</i>	<i>573.0</i>	<i>811.5</i>	<i>-238.5</i>	<i>367.3</i>	<i>458.4</i>	<i>-91.1</i>
Previous year = 100	106.9	104.8		110.9	107.3		147.8	125.1	
Share of the group in %	16.4	20.2		15.7	20.1		16.9	20.0	
<i>Hungary</i>	<i>755.4</i>	<i>795.8</i>	<i>-40.5</i>	<i>927.0</i>	<i>927.3</i>	<i>-0.3</i>	<i>536.3</i>	<i>538.7</i>	<i>-2.4</i>
Previous year = 100	116.1	103.4		122.7	116.5		129.7	120.4	
Share of the group in %	24.0	21.3		25.5	23.0		24.7	23.5	

*Source: data of the Central Statistical Office.*

Trade with developing countries is characterised by the largest imbalance, for several years. In 2002, the situation deteriorated further. Deficit reached a record level, close to 4.6 billion USD (32.6% of total deficit); which was 952 million USD more than the level of 2001. In 2002, more than half of this deficit was generated in commercial exchange with China (about 1.9 billion USD) and Korea (541 million USD).

During the 1<sup>st</sup> half of 2003, the situation in trade with developing countries became even worse.

Export to this group of countries rose, and its growth exceeded the dynamics of import. However, due to the large difference between the volume of import, and the scope of export to these markets, the exchange deficit increased again (by 451 million USD). It reached a level unseen during the previous years, totaling 2,476 million USD.

Table 27. Foreign trade turnover in 1998, 2001-2002 and in the 1<sup>st</sup> half of 2003, per groups of countries

turnover in million USD

Description	1998		2001		2002			1st half of 2003		
	Export	Import	Export	Import	Export	Import	Balance	Export	Import	Balance
<b>Total Poland</b>	<b>28,228.9</b>	<b>47,053.6</b>	<b>36,092.1</b>	<b>50,275.1</b>	<b>41,009.8</b>	<b>55,112.7</b>	<b>-14,102.9</b>	<b>23,903.3</b>	<b>30,718.3</b>	<b>-6,815.0</b>
Previous year = 100	109.6	111.2	114.0	102.7	113.6	109.6		126.9	120.4	
<b>European Union</b>	<b>19,269.8</b>	<b>31,027.0</b>	<b>24,986.8</b>	<b>30,865.1</b>	<b>28,180.9</b>	<b>33,998.5</b>	<b>-5,817.6</b>	<b>16,665.9</b>	<b>18,848.7</b>	<b>-2,182.8</b>
Previous year = 100	116.6	114.9	112.8	103.1	112.8	110.2		126.9	119.3	
Share in %	68.3	65.9	69.2	61.4	68.7	61.7		69.7	61.4	
<b>EFTA</b>	<b>467.9</b>	<b>1,051.1</b>	<b>894.3</b>	<b>1,182.7</b>	<b>1,099.4</b>	<b>1,457.8</b>	<b>-358.4</b>	<b>607.2</b>	<b>849.2</b>	<b>-242.0</b>
Previous year = 100	118.3	100.6	148.9	110.0	122.9	123.3		121.5	118.1	
Share in %	1.7	2.2	2.5	2.4	2.7	2.6		2.5	2.8	
<b>Other developed countries</b>	<b>1,020.5</b>	<b>3,191.3</b>	<b>1,212.0</b>	<b>3,130.9</b>	<b>1,499.0</b>	<b>3,251.3</b>	<b>-1,752.3</b>	<b>777.9</b>	<b>1,640.9</b>	<b>-863.0</b>
Previous year = 100	116.4	104.2	84.9	85.0	123.7	103.8		118.6	100.2	
Share in %	3.6	6.8	3.4	6.2	3.7	5.9		3.3	5.3	
<b>CEFTA</b>	<b>2,090.8</b>	<b>3,011.2</b>	<b>3,148.7</b>	<b>3,743.6</b>	<b>3,641.7</b>	<b>4,039.4</b>	<b>-397.7</b>	<b>2,168.7</b>	<b>2,296.5</b>	<b>-127.8</b>
Previous year = 100	116.6	112.1	118.3	108.1	115.7	107.9		135.0	123.8	
Share in %	7.4	6.4	8.7	7.4	8.9	7.3		9.1	7.5	

cont. ➡

Description	1998		2001		2002			1st half of 2003		
	Export	Import	Export	Import	Export	Import	Balance	Export	Import	Balance
<b>Countries of the former USSR</b>	<b>3,880.1</b>	<b>3,240.3</b>	<b>3,599.4</b>	<b>5,594.1</b>	<b>4,277.8</b>	<b>5,562.0</b>	<b>-1,284.2</b>	<b>2,367.4</b>	<b>3,316.2</b>	<b>-948.8</b>
Previous year = 100	87.2	89.1	121.6	97.4	118.8	99.4		123.7	132.6	
Share in %	13.7	6.9	10.0	11.1	10.4	10.1		9.9	10.8	
of this:										
<b>Countries of the CIS</b>	<b>3,198.6</b>	<b>3,055.2</b>	<b>2,510.0</b>	<b>5,243.6</b>	<b>2,939.8</b>	<b>5,293.7</b>	<b>-2,353.9</b>	<b>1,576.1</b>	<b>3,141.2</b>	<b>-1,565.1</b>
Previous year = 100	81.2	87.8	119.5	97.1	117.1	101.0		118.9	132.0	
Share in %	11.3	6.5	7.0	10.4	7.2	9.6		6.6	10.2	
<b>The Baltic countries</b>	<b>681.5</b>	<b>185.1</b>	<b>1,089.3</b>	<b>350.6</b>	<b>1,338.0</b>	<b>268.3</b>	<b>1,069.7</b>	<b>791.4</b>	<b>174.9</b>	<b>616.5</b>
Previous year = 100	134.0	118.1	126.9	101.4	122.8	76.5		134.4	144.3	
Share in %	2.4	0.4	3.0	0.7	3.3	0.5		3.3	0.6	
<b>Developing countries</b>	<b>1,686.8</b>	<b>5,664.6</b>	<b>2,378.5</b>	<b>5,980.2</b>	<b>2,423.1</b>	<b>6,977.3</b>	<b>-4,554.2</b>	<b>1,382.7</b>	<b>3,858.9</b>	<b>-2,476.2</b>
Previous year = 100	98.5	116.2	118.7	115.6	101.9	116.7		129.1	124.6	
Share in %	6.0	12.0	6.6	11.9	5.9	12.7		5.8	12.6	

Source: data of the Central Statistical Office.

### 6.3. The commodity structure of Poland's foreign trade

In 1998–2002 positive changes occurred in the commodity structure of the Polish export. They were reflected by the growing share of highly processed goods, which are more competitive in the international market, while the share of raw materials and semi-finished goods dropped. (such as mineral products, wood and wood products, metallurgy products). This process was significantly supported by the influx of foreign direct investment. This process is reflected in the higher share of the products of electromechanical industry in export (from 29.4% of the total export in 1998, to 38.6% in 2002). The main commodities exported from Poland included: fuel engines, cars and trucks, car parts and accessories, color TV receivers, wires, cables and power cables, as well as optic fiber cables.

Growth of export in 2002 (by 4,918 million USD) compared to 2001 was due mainly to higher sales in the following groups of commodities:

- products of the electromechanical industry – by 2,469 million USD,
- products of the wood and paper industry – by 442 million USD,
- miscellaneous products (mainly furniture) – by 420 million USD,
- agricultural and food products – by 255 million USD.

Contrary to the commodities groups discussed above, where the situation improved during 2002, the groups of commodities listed below have undergone a worsening of the situation, and deficit in their trade has increased.

- the group of chemical products – increase of deficit by 435 million USD,
- the group of light industry products – increase of deficit by 297 million USD.

During the 1<sup>st</sup> half of 2003, an increase of turnover was recorded in all commodities groups, both in terms of export and import, compared to the same period of the previous year. From among the ten groups (the aggregate goods sections), only in four groups of commodities the growth rate of export was higher than the growth rate of import, which led to an improved balance of exchange:

- by 406 million USD in the group of *agricultural and food products*;
- by 341 million USD in the group of *miscellaneous products, mainly furniture*,
- by 251 million USD in the group of *wood and paper industry products*,
- by 116 million USD in the group of *ceramic products*.

However, the total value of this positive change was not enough to offset the worse exchange results in the remaining groups.

**Table 28. The commodity structure of Poland's foreign trade in 2001–2002 and during the 1<sup>st</sup> half of 2003**

turnover in million USD

Description	1998			2001			2002		
	Export	Import	Export	Import	Export	Import	Balance	Export	Import
<b>Total, Poland</b>	<b>36,092.1</b>	<b>50,275.1</b>	<b>-14,183.0</b>	<b>41,009.8</b>	<b>55,112.7</b>	<b>-14,102.9</b>	<b>23,903.3</b>	<b>30,718.3</b>	<b>-6,815.0</b>
previous year = 100	114.0	102.7		113.6	109.6		126.9	120.4	
<b>Agricultural and food products</b>	<b>3,030.1</b>	<b>3,406.0</b>	<b>-375.9</b>	<b>3,285.1</b>	<b>3,575.7</b>	<b>-290.6</b>	<b>1,901.3</b>	<b>1,854.8</b>	<b>46.6</b>
previous year = 100	114.3	107.0		108.4	105.0		141.8	108.9	
Share in %	8.4	6.8		8.0	6.5		8.0	6.0	
<b>Mineral products</b>	<b>2,187.8</b>	<b>5,584.4</b>	<b>-3,396.6</b>	<b>2,215.1</b>	<b>5 541.2</b>	<b>-3,326.2</b>	<b>1,225.6</b>	<b>3,267.0</b>	<b>-2,041.4</b>
previous year = 100	123.5	95.3		101.2	99.2		122.4	131.4	
Share in %	6.1	11.1		5.4	10.1		5.1	10.6	
<b>Chemical industry products</b>	<b>3,478.5</b>	<b>8,871.5</b>	<b>-5,393.0</b>	<b>4,118.6</b>	<b>9,946.6</b>	<b>-5,828.1</b>	<b>2,495.5</b>	<b>5,726.7</b>	<b>-3,231.2</b>
previous year = 100	111.5	105.9		118.4	112.1		136.8	122.9	
Share in %	9.6	17.6		10.0	18.0		10.4	18.6	
<b>Leathers</b>	<b>315.7</b>	<b>524.4</b>	<b>-208.6</b>	<b>336.1</b>	<b>583.9</b>	<b>-247.8</b>	<b>208.4</b>	<b>326.8</b>	<b>-118.4</b>
previous year = 100	126.0	123.8		106.5	111.4		131.6	120.4	
Share in %	0.9	1.0		0.8	1.1		0.9	1.1	
<b>Wood and paper products</b>	<b>2,427.9</b>	<b>2,300.8</b>	<b>127.0</b>	<b>2,869.7</b>	<b>2,550.3</b>	<b>319.4</b>	<b>1,822.8</b>	<b>1,382.0</b>	<b>440.8</b>
previous year = 100	110.3	103.8		118.2	110.8		134.7	118.8	
Share in %	6.7	4.6		7.0	4.6		7.6	4.5	
<b>Light industry products</b>	<b>3,156.7</b>	<b>3,704.1</b>	<b>-547.4</b>	<b>3,190.0</b>	<b>4,034.4</b>	<b>-844.4</b>	<b>1,747.6</b>	<b>2,184.0</b>	<b>-436.4</b>
previous year = 100	103.9	107.9		101.1	108.9		114.3	112.9	
Share in %	8.7	7.4		7.8	7.3		7.3	7.1	
<b>Ceramic products</b>	<b>1,010.0</b>	<b>1,016.3</b>	<b>-6.3</b>	<b>1,181.2</b>	<b>1,103.0</b>	<b>78.2</b>	<b>696.4</b>	<b>544.3</b>	<b>152.1</b>
previous year = 100	111.2	97.3		116.9	108.5		130.4	109.3	
Share in %	2.8	2.0		2.9	2.0		2.9	1.8	
<b>Metallurgy products</b>	<b>4,229.2</b>	<b>4,297.2</b>	<b>-68.0</b>	<b>4,668.8</b>	<b>4,796.1</b>	<b>-127.3</b>	<b>2,801.0</b>	<b>2,817.6</b>	<b>-16.6</b>
previous year = 100	104.9	105.6		110.4	111.6		129.0	131.4	
Share in %	11.7	8.5		11.4	8.7		11.7	9.2	
<b>Electromechanical products</b>	<b>13,369.8</b>	<b>19,476.5</b>	<b>-6,106.7</b>	<b>15,838.5</b>	<b>21,868.8</b>	<b>-6 030.3</b>	<b>8,989.3</b>	<b>12,006.2</b>	<b>-3,016.9</b>
previous year = 100	120.3	101.2		118.5	112.3		122.0	118.0	
Share in %	37.0	38.7		38.6	39.7		37.6	39.1	
<b>Miscellaneous</b>	<b>2, 883.1</b>	<b>1 023.2</b>	<b>1,859.9</b>	<b>3,303.3</b>	<b>1,065.1</b>	<b>2,238.2</b>	<b>2,013.7</b>	<b>587.7</b>	<b>1,426.0</b>
previous year = 100	112.4	100.7		114.6	104.1		129.8	126.0	
Share in %	8.0	2.0		8.1	1.9		8.4	1.9	
<b>Unclassified goods</b>	<b>3.3</b>	<b>70.8</b>	<b>-67.5</b>	<b>3.5</b>	<b>47.5</b>	<b>-44.0</b>	<b>1.8</b>	<b>21.3</b>	<b>-19.5</b>
previous year = 100	127.8	91.7	90.5	105.3	67.0	65.2	117.2	96.6	
Share in %	0.0	0.1		0.0	0.1		0.0	0.1	

Source: data of the Central Statistical Office.

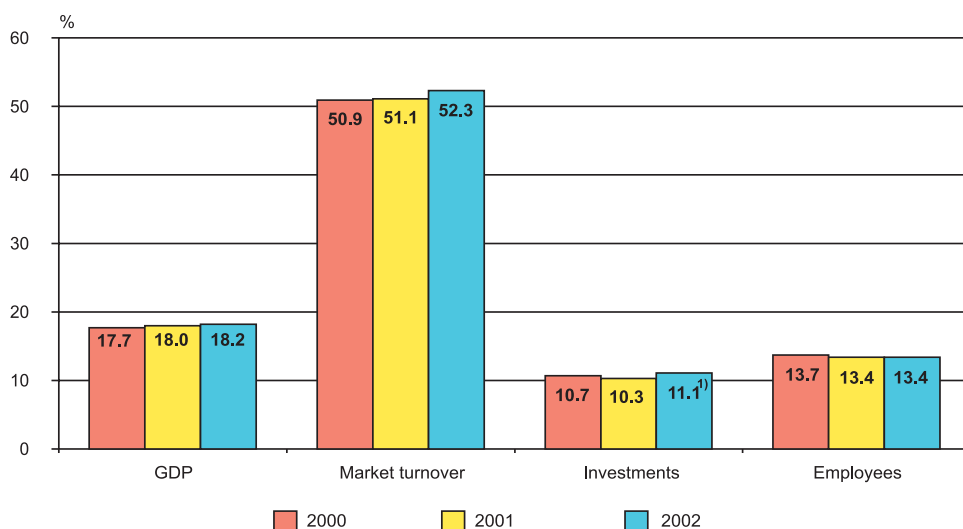
## Chapter 7

# INTERNAL TRADE

## 7.1. Commerce and repairs in the national economy

From among all service sectors, commerce is the most important one – both from the standpoint of gross value added it generates, and from the standpoint of the number of employees.

**Chart 13. Share of commerce in the national economy**



<sup>1)</sup> Applies to enterprises employing more than 49 workers.

*Source: data of the CSO, calculations and estimates of the Institute for Internal Market and Consumption.*

## 7.2. Commodities turnover in internal trade in 2002

The value of goods sales in internal trade reached 859.0 billion PLN in 2002. This was an increase of 3.9%, compared to 2001. Retail sales rose by 2.6%. Wholesale sales constitute 55.1% of the total turnover of internal trade, and retail trade 44.9%.

**Table 29. Sales of goods per primary groups of commodities**

Groups of commodities	2000	2001	2002	2000	2001	2002
	Wholesale sales in milion PLN			Sales structure in %		
Total	440,206	450,989	473,736	100.0	100.0	100.0
of this:						
– food and non-alcoholic beverages	75,977	75,049	72,048	17.3	16.6	15.2
– alcoholic beverages	23,331	24,043	23,970	5.3	5.3	5.1
– non-food goods	340,899	351,897	177,718	77.4	78.0	79.7
	Retail sales in milion PLN			Sales structure in %		
Total	360 318	375,438	385,287	100.0	100.0	100.0
of this:						
– food and non-alcoholic beverages	113,007	120,801	124,498	31.4	32.2	32.3
– alcoholic beverages	37,130	37,812	38,637	10.3	10.1	10.0
– non-food goods <sup>*)</sup>	210,181	216,825	222,152	58.3	57.7	57.7

<sup>\*)</sup> excluding tobacco products;

Source: Calculations of the Ministry of Economy, Labor and Social Policy on the basis of data of the CSO.

### 7.3. Number of enterprises

In 2002, the number of business entities registered in the REGON system (national system for registration of businesses) in the section “commerce and repairs” amounted to 1,168.1 thousand.

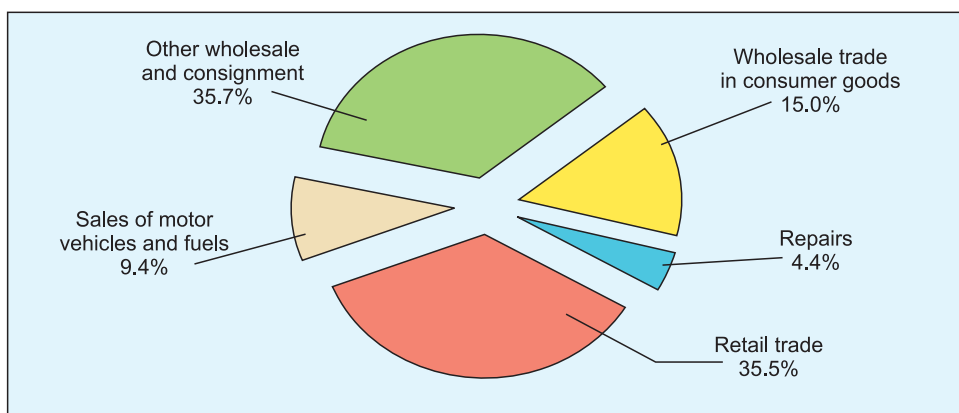
The rapid growth in the number of commercial companies, observed during the 1990’s (especially during its first half) decreased significantly at the end of the decade; and increased again during the last 2 years. The number of micro-enterprises, owned by individuals, is rising particularly fast. This situation is certainly tied to the difficult situation in the labor market; and to the relatively lower costs and smaller risk associated with starting business activity in commerce, as opposed to other sectors of the economy. The growth in the number of newly registered commercial companies in 2000 reached 1%; in 2001 2%, and in 2002 – 3.5%. The number of commercial firms, owned by individuals, rose by 4.0%. The share of individuals in the group of commercial entities reached 82.5%. Of this group, micro-enterprises constituted 97.5%, which is the highest proportion of all sectors of the economy. The rising share of commercial partnerships (by 14.2%) in the commerce sector is a positive occurrence, as these firms are by their very nature



stronger, in terms of capital and organization. The number of privately owned commercial partnerships rose by 19%. The growth rate of foreign companies and companies with mixed capital is clearly decreasing, and amounted to: 8.3% in 2000; 6.1% in 2001 and 3.4% in 2002.

This means that the share of Polish companies in the total number of commercial companies is rising, while the share of foreign companies and of companies with mixed capital declines. In 2001, the share of foreign companies and companies with mixed capital amounted to 31.1%, and in 2002 it fell to 27.2%. The share of foreign companies and companies with mixed capital in the total number of registered commercial companies reached 1.7% in 2002, similarly as in the previous year.

**Chart 14. Structure of commercial enterprises employing more than 9 workers in 2002**



Source: Institute for Internal Market and Consumption on the basis of data of the CSO.

**Table 30. Structure of commercial companies per size, in percentage**

Description	2000	2001	2002
<b>Number of employees:</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
– up to 9 persons	96.10	95.90	96.67
– 10 to 49 persons	2.80	3.15	2.52
– more than 49 persons	1.10	0.95	0.81
<b>Number of owned stores:</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
– up to 2 stores	98.62	98.61	98.69
– 3 to 10 stores	1.12	1.14	1.06
– 11 to 20 stores	0.20	0.19	0.18
– more than 20 stores	0.06	0.06	0.07

Source: Calculations of the Institute for Internal Market and Consumption on the basis of data of the CSO.

## 7.4. Retail commerce

In 2002, there were 444.3 thousand stores belonging to domestic owners (99.8% of the number of 2001); 3.5 thousand stores owned by foreign capital (increase of 8.6%); and 0.8 thousand stores owned by mixed capital (decrease of 9.7%). The sales area of stores belonging to domestic owners rose by 7.8%; stores owned by foreign capital – by 6.1%; while the stores owned by mixed capital reduced their sales area by almost  $\frac{1}{4}$ , compared to 2001.

The market is dominated (92.6%) by small stores, whose sales area does not exceed 50m<sup>2</sup>. Compared to 2001, the number of the smallest shops rose by 0.6%; and the number of large stores – with more than 401 m<sup>2</sup> of sales area – rose by 3.8%. In 2002, there were 4,625 large stores (1.03% of the total number of shops, and 16.7% of the total sales area). Of this number, 342 stores had an area of 2,500 m<sup>2</sup> or more.

The structure of stores from the perspective of sold commodities did not change over the last two years. The market is dominated by shops with food articles (38.6% of the total number). In this group, the number of bakeries and patisseries rose by 6.7%; butcher's shops by 2.2%, and greengrocers by 1.1%. The number of general grocery stores, fish stores and liquor stores dropped slightly. From among the non-food stores (18.5% of total shops, an increase by 1.0% in 2002), the largest increase was seen among textile stores (2.7%), clothing stores (2.1%), bookstores and paper shops by 1.5%.

## 7.5. Wholesale trade

Commercial, service and production enterprises in 2002 had 34,961 commercial warehouses; and 8,490 silos and reservoirs. The number of small warehouses, with obsolete architectural and functional design, was reduced. The number of modern distribution and logistic services centers increased.

## 7.6. Financial situation of enterprises in wholesale and retail trade

The average annual growth rate of total revenues in large and medium-sized commercial enterprises reached 1.2% (compared to a decline of 0.5% in 2001, compared to the previous year). During the same period, their overall costs rose

by 1.7%. The statutory charges on the gross financial result also rose. Despite the downward trend in the gross and net financial results, commercial enterprises have achieved sales profitability in 2002. The profitability ratio in large commercial enterprises reached 1.2%; and in medium-sized and small firms it amounted to 2.1%.

Data for the 1<sup>st</sup> half of 2003 suggest a decrease of profitability in retail trade, while it increased in wholesale commerce and sales of fuels.



## Chapter 8

# TOURISM

According to data published at the end of January 2003 by the World Tourism Organisation (<http://www.world-tourism.org/newsroom/Releases/2003/jan/numbers2002.htm>), the number of global international travels in 2002 amounted to 714.6 million. This was an increase of 3.1%, compared to the crisis 2001 year; and 2.7% more than in the best-ever year 2000. The growth in the number of travels in Europe was slightly smaller (2.4%) than the global average. The number of foreign visitors crossing Polish borders continued to decline in 2002. During the whole 2002, there have been 50.7 million of foreigners coming into Poland (17.4% less than in 2001).

### **Basic trends in tourism in Poland in 2002:**

- the downward trend in the number of foreign visitors coming into Poland was maintained, especially during the first three quarters of the year. The number of total arrivals dropped significantly, compared to the result of 2001;
- the decline in the number of arrivals was more pronounced amongst one-day visitors;
- a definitely positive element is the slight increase of average spend per visitor (both among foreign tourist and one-day visitors), especially among German travellers;
- total revenues on foreign tourism in Poland amounted to **4,493 million USD**. Of this, 2,805 million USD (62.4%) was received from tourists, and the remaining amount from one-day visitors;
- it seems that the reduction of the decline in the number of arrivals during the last quarter of 2002, and even a slight increase in the case of visitors from certain countries (Germany, USA, Sweden, Norway, Italy, Japan) can mean that the tourism incoming into Poland becomes to stabilise;
- a typical feature of incoming tourism is the large number of visits of the same persons during the year; the actual number of tourists visiting Poland is significantly smaller than the number of incoming visits. In 2001, the average number of visits in the course of 12 months reached 3.5 per person; and in 2002 it rose to 3.9.

## 8.1. Tourists visiting Poland

In 2002, the traffic at border crossings continued to decrease. During the whole 2002, the number of tourists coming into Poland dropped by 6.8%, compared to the previous year.

**Table 31. Arrivals of foreign tourists into Poland, broken down per country, in 2000–2002**

(in thousand visits)

Countries	2000	2001	2002	Change 01/02
<b>Total tourists</b>	<b>17,400</b>	<b>15,000</b>	<b>13,980</b>	<b>-6.8%</b>
Germany	5 920	4,400	4,160	-5.5%
Russia	1,140	980	940	-4.1%
Belarus	2,370	2,080	1,700	-18.3%
Ukraine	3,090	3,080	2,930	-4.9%
Lithuania	850	840	840	0.0%
Latvia and Estonia	580	520	480	-7.7%
Other countries of the former USSR	170	100	90	-10.0%
Czech Republic and Slovakia	340	310	290	-6.5%
Other countries	2,940	2,690	2,550	-5.2%

Source: estimates and own calculations of Tourism Institute.

NOTE: estimates, should not be considered as accurate.

The largest decrease was seen among tourists coming from our neighbour countries (by 18%). Particularly large reduction of arrivals occurred among tourists from Germany (by 24%) and Slovakia (by 20%). The arrivals from other European countries dropped by 5.9%. The number of visitors from the USA went down by 12%, from Canada by 8%, from Australia by 5%. Meanwhile, the number of tourists arriving from Japan rose by 4%.

According to the assessment of the Tourism Institute<sup>1)</sup>, in 2002 Poland was visited by a total of 14 million tourists, which was a decline of 6.8%, compared to

<sup>1)</sup> The research was performed at the Tourism Institute under contract from the Ministry of Economy, Labour and Social Policy, under the Programme of Statistical Analysis of Public Statistics for 2003 – subject no 1.30.05(080), "Foreign Tourism".

2001. In 2001, the decline was even larger – by 13.8%. Arrivals from neighbour countries constitute over three-fourths of tourist traffic.

During the recent years, typical tourism (holidays, recreation), business tourism and visits at families or friends each constitute about 20 to 27% of total incoming visits. This means that each of these segments comprises 3.1 to 4.1 million visits.

In 2002, the share of tourist and recreational visits dropped slightly, compared to previous year, and amounted to 23.4%. Only the proportion of German tourist visitors remained on the 2001 level, and amounted to 28.5%. Despite a slight decline, the largest proportion of typically tourism visits was registered among visitors from other countries of Western Europe. The average duration of stay was reduced yet another time, and amounts now to 3.9 nights.

In 2003, the traffic at border crossings continued to decrease. During the 1<sup>st</sup> quarter of 2003, the Border Guard recorded 9.6 million of foreigners coming into Poland (this is 8% less than during the same period of 2002). Of this, about 2.7 million visitors were tourists, according to estimates<sup>2)</sup>.

The research of Tourism Institute and estimates of the National Bank of Poland suggest that in 2002, the total revenues on foreign tourism in Poland amounted to 4,493 million USD. Of this, 2,805 million USD (62.4%) was received from tourists, and the remaining amount from one-day visitors. Revenues on incoming tourism were reduced by 6.4%, compared to the previous year (in 2001, they amounted to 4.8 billion USD).

Spend per person ranged from 69 USD (Lithuanian tourists) to 302 USD (overseas visitors). The change tendencies were not uniform: the largest increase of spending was seen among tourist from Belarus (by 17.2%), France and Scandinavian countries (by about 7%), and from Germany (by 1.4%). A decline of spend was registered among all other important markets, which generate tourism coming into Poland.

The average daily spend of tourists ranged from about 23 USD (overseas visitors) to 38 USD (visitors from Belarus). It is worth noticing that in 2002 an increase of spend per one day of visit was seen among visitors from most countries.

From the standpoint of tourism demand, the location of expenses is important for the national economy – and especially the breakdown of these expenses into

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<sup>2)</sup> Tourism Institute.

those, which supported the country which generated the tourism traffic, and those which were made in the receiving regions.

Similarly as during the previous years, in 2002 the smallest pre-travel costs were incurred by residents of neighbour countries; and the largest ones – by visitors from overseas, Great Britain, France and Scandinavia.

On the basis of research, conducted twice in 2003, it is estimated that in the 1<sup>st</sup> quarter of the year the average expenses of foreign tourists in Poland reached about 105 USD per person, and 24 USD per one day of visit (weighted averages).

Spend per person, analysed per country, ranged from 56 USD (Belarus) to 256 USD (overseas visitors).

## 8.2. Domestic tourism of Poles

According to the estimates of the Tourism Institute<sup>3)</sup>, in 2002 Poles aged 15 and over participated in 54.2 millions of domestic tourist travels. Of this total number, one third (33%) were long-term travels of 5 and more days; and two-thirds (67%) constituted short-term travels, of 2 to 4 days. As the number of Poles participating in domestic travels rose, the total number of travels increased by 0.7%. The number of long-term travels (5 days and more) rose by 3.4%; while the number of short-term travels dropped by 0.5%, despite a growth in the number of people participating in such trips.

**Table 32. Domestic travels of Poles aged 15 and over, in 2000–2002 (million)**

Description	2000	2001	2002	Change 02/01
Long-term	19.2	17.4	18.0	3.4%
Short-term	44.7	36.4	36.2	-0.5%
<b>Total domestic</b>	<b>63.9</b>	<b>53.8</b>	<b>54.2</b>	<b>0.7%</b>

*Source: estimates on the basis of questionnaires of the Tourism Institute.*

<sup>3)</sup> The research was performed at the Tourism Institute under contract from the Ministry of Economy, Labour and Social Policy, under the Program of Statistical Analysis of Public Statistics for 2003 – subject no 1.30.06(081), "Tourism Activity of Poles".



In 2002, Poles spent a total of 22.7 billion PLN on domestic tourist travel (this sum includes costs of children's travels). This is an increase of about 22%, compared to last year – in 2001, total expenses for domestic travel reached 18.6 billion zloty.

According to the estimates of the Tourism Institute<sup>4)</sup>, during the 1<sup>st</sup> quarter of 2003 Poles participated in about 8.7 millions of domestic tourist travels. Of this total number, one fourth were long-term travels; and three fourths – short-term ones.

### **8.3. Foreign travels of Poles**

In 2002, the borders were crossed by 45 million of Poles going to other countries. This is a decline of 15.2%, compared to last year. This was the second subsequent years in which foreign travels of Poles dropped. 8.4 million of the persons crossing borders (18.7%) were tourists – persons, who spent at least one night outsider the country's boundaries (an increase of 9.1% compared to 2001). The growth in the number of foreign tourist travels results from the fact that in 2002 Poles traveled more frequently: the average number of foreign travels reached 1.7 per person (in 2001 – 1.5).

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<sup>4)</sup> As above.



## Chapter 9

# THE LABOUR MARKET

The situation in the labour market strongly depends on the macroeconomic situation of the country. The main reason for the decline in the number of employees and the rising unemployment, observed over the recent years, is the stoppage of economic growth and creation of new jobs. This is coupled with the large inflow of young people, born during the demographic high of the 1980's. Other important factors which contribute to the growth of unemployment include the restructuring of the economy, causing reduction of employment in the ineffective areas of industry and in enterprises; and the implementation of social reform, which leads to reductions in employment in the sectors of health services, education and public administration. Growth of unemployment was due also to internal features of the labour market, especially to its regional differences, coupled with insufficient mobility of capital and labor resources, and with the low qualifications of employees. The tax factor is also important, as it leads to increase the costs of employment. This chapter presents the current situation in the Polish labour market. Particular attention is given to the groups of employees and unemployed, as well as to the structure of employment and unemployment.

### 9.1. Employed

The year 2002 was another year in which a downward trend was registered in the number of employed. Results of the BAEL<sup>1)</sup> research show that in December 2002 the number of employees dropped by about 426 thousand persons, or by 3%, compared to the previous year. The first quarter of 2003, compared to the fourth quarter of 2002, brought a further reduction in the number of employees – by 133 thousands, or by 1.7%. Compared to the same period of the previous year, the number of employees dropped by 1%. During the 2<sup>nd</sup> quarter of 2003, the

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<sup>1)</sup> BAEL – research conducted by the Central Statistical Office since 1992. In the period 1992 – 1999 only one week of a quarter was subjected to analysis, and during the later years, the research was conducted in a continuous manner.

number of employed rose, compared to the 1<sup>st</sup> quarter of 2003, by 2.3%, but still remained lower than during the same period of 2002.

The year 2002 brought also changes in the structure of the unemployed, aside from change in their number. Among the three primary economic sectors, the most important changes were seen in the industry sector, where the number of employed dropped by 8.9%; and in the services sector, where their number rose by 0.2%. In agriculture the number of employees went down by 2.1%.

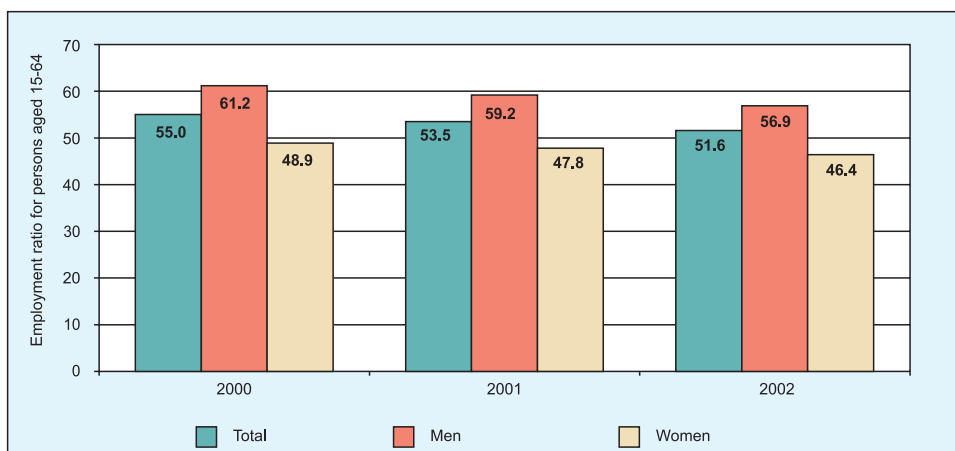
**Table 33. Employees per sectors of the economy**

Period of research	total	services	industry	agriculture	services	industry	agriculture
	thousand				% of total		
2000	14,526	7,319	4,481	2,727	50.4	30.8	18.8
2001	14,207	7,156	4,332	2,719	50.4	30.5	19.1
2002	13,781	7,170	3,947	2,663	52.0	28.6	19.3

*Source: CSO, BAEL research.*

Within the industry sector, the largest decline in the number of employees was registered in the construction sector (by 11.1%); and in production activity (by 9.9%). The decline in the number of employees was also significant in the mining and quarrying sector (by 5.9%). Within the services sector, an increase in employment levels was registered in real estate services and services to businesses (by 7.7%); as well as in public administration and national defence (6.8%). The growth in the number of employed was also registered in health services and welfare (by 4.2%).

The employment ratio – calculated on the basis of BAEL and defined as the proportion of employed aged 15–64 to the total population aged 15–64 – reached 51.7% in 2002, compared to 53.5% in 2001. This means a decrease by almost 2 percentage points compared to the previous year. As a comparison, the average employment ratio for countries of the European Union amounts to about 64%. According to the priorities defined in the Lisbon Strategy, it should be increased to 70% in 2010. The data presented here proves the large differences in employment levels between Poland and countries of the EU; and define the challenge that the Polish economy faces – especially the need to push for a pro-employment strategy for the country's development over the coming years.

**Chart 15. Employment ratio for persons aged 15–64**

Source: BAEL research, CSO.

## 9.2. Unemployment and unemployment rate

The decline in the number of employed in the national economy in 2002 led to an increase in the level and intensity of unemployment<sup>2)</sup>. In 2002, the average number of unemployed in Poland reached 3,431 thousand people, which amounted to 19.9% of all professionally active people. Among women, unemployment rate reached 20.9%, and among men 19.1%. This means an increase in the number of unemployed by 7.6% compared to 2001. From 2000 to 2001, the number of unemployed rose by 13.8%.

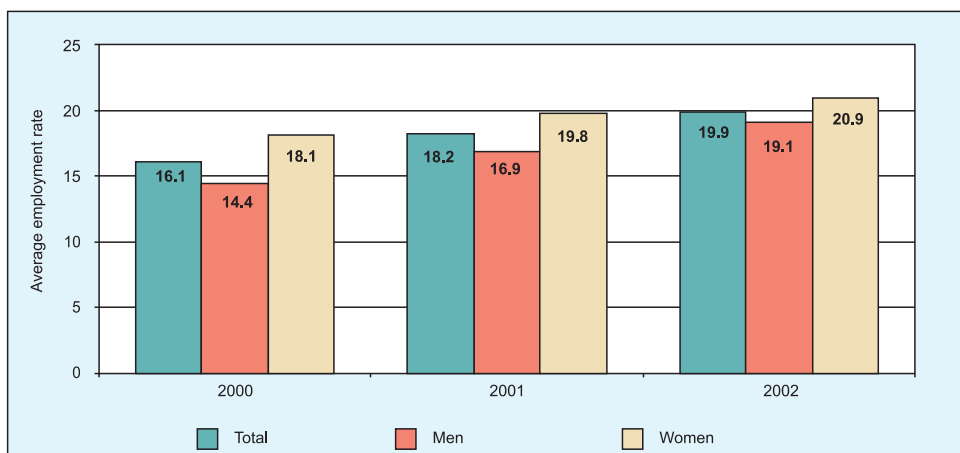
During the 2<sup>nd</sup> quarter of 2003, the number of unemployed and unemployment rate were reduced, compared to the same period of the previous year and to the 1<sup>st</sup> quarter of 2003. The number of unemployed reached 3,288 people, and unemployment rate 19.4%.

This negative situation in the labour market was determined by the following factors:

- low dynamics of economic growth over the last two years (the growth rate of GDP amounted to: 1.0% in 2001, and 1.4% in 2002);
- accelerated restructuring processes in the economy;
- higher pressure of graduates on the job market, due to the demographic high;

<sup>2)</sup> This relation is not always present. For example in Hungary the low employment level is coupled with low unemployment level, which is due to the low level of professional activity of citizens.

**Chart 16. Average unemployment rate**



Source: BAEI research, CSO.

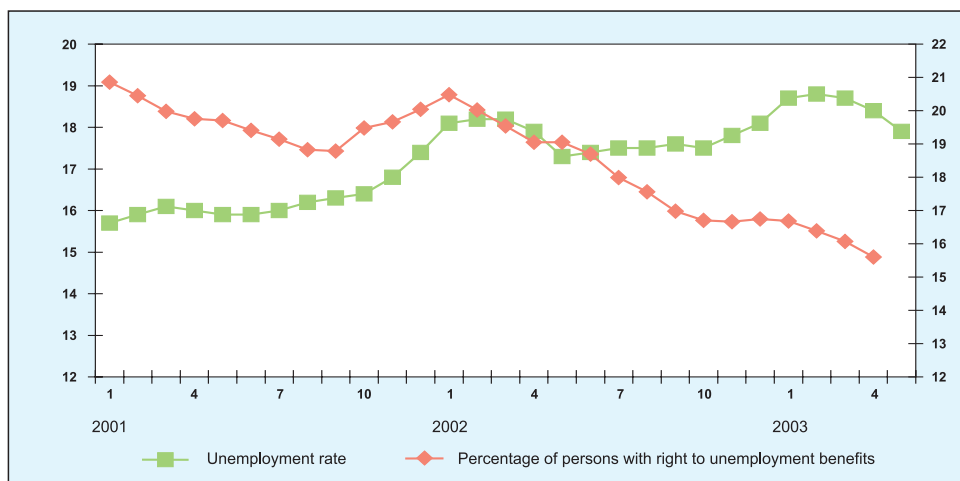
- significant reduction in the production, commercial and service activities, which was caused by external factors and also by excessive fiscal policy;
- low flexibility of the labour law;
- “expiration” of social packages;
- structural problems in the labour market.

The statistical data on registered unemployment can serve as additional source of information on the labour market situation. At the end of 2002, the rate of registered unemployment amounted to 18.1% (1 percentage point more than a year earlier). It should be noted, however, that unemployment rate has been rising constantly since 1997, when it amounted to 10.9%. The growth of registered unemployment is accompanied by the decline in the number of persons entitled to unemployment benefits. At the end of 1996 this proportion amounted to 50.6%; and at the end of April 2003 to 15.6%. Such a radical reduction of this proportion results from the growing scale of long-term unemployment, and the resulting loss of benefit entitlement.

It should also be noted that in 2001/2002 the growth in the number of unemployed was coupled with the growth of persons entitled to unemployment benefits; whereas a year later growth of unemployment is accompanied by a decline in the number of persons entitled to benefits. At the end of 2002, the share of persons with benefit entitlement among all newly registered persons was higher by 8 percentage points; and among to persons removed from the registration system – by 10 percentage points (that is, respectively, 41% and 47%). This means a significant increase of the flow of persons who are unemployed for a short time.

In consequence, the chances for employment among the long-term unemployed are reduced.

**Chart 17. Rate of registered unemployment, and the percentage of newly registered persons who have rights to unemployment benefits**



Source: Ministry of Economy, Labor and Social Policy.

### 9.3. Structural problems in the labour market

Unemployment in Poland is characterised by certain permanent and unfavorable features of its structure – regardless of the tendencies manifested in the individual year. The features which differentiate the population of employed in Poland are: age, education, location of residence, gender.

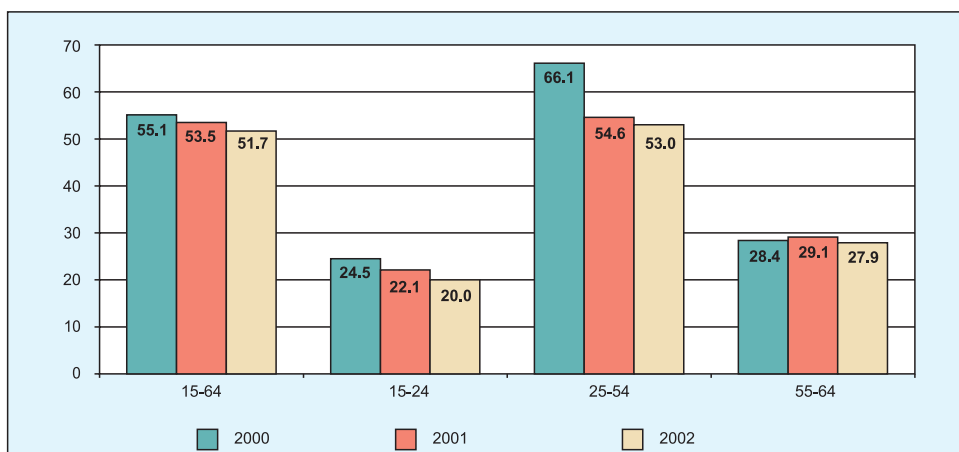
#### Differences in the labour market due to age

Research confirms that the difference in unemployment threats to the young people, compared to the older ones, is high. The most important reasons for low demand for the work of young people include: small professional experience (or complete lack of such), low level of work discipline and the instability of young people, manifested in their significant willingness to change occupation, which threatens the employers with additional costs<sup>3)</sup>.

<sup>3)</sup> M. Socha, U. Sztanderska, "Strukturalne podstawy bezrobocia w Polsce" (*Structural Foundations for Unemployment in Poland*), Wydawnictwo Naukowe PWN, Warsaw 2000 r., p. 213.

In 2002, the situation of young people in the labour market remained difficult. The unemployment rate in the group of persons aged 15 to 24 was almost twice higher than in the whole population, and reached the level of 43% (compared to 40.8% in 2001).

**Chart 18. Employment rate per age groups in 2000–2002**



Source: BAEL research, CSO.

## Education level as factor determining unemployment

Research confirms that persons with lower education level and with no vocational training are the most threatened with unemployment.

In 2002, the largest level of unemployment was found among persons with primary and incomplete primary education (25.6%). High rate of unemployment was also found among persons with high school education (23.3%) and vocational education (24.4%). The largest increase of unemployment in the course of the year was seen among persons with primary and incomplete primary education (by 2.8 percentage point) and with vocational education (1.4 percentage point). In 2002, unemployed persons with education on the vocational level or lower constituted 60.9% of all employees (61.9% in 2001). Persons with higher education are the least threatened with unemployment. Among this group, unemployment rate was the lowest and amounted to 7.3%.



## **Geographical differences in the labour market**

Geographical differences in the labour market appeared in the beginning of economic transformation, and are still strong. In certain regions, especially those where the number of former state farms was large, the situation becomes even worse. The basic reasons for structural problems are, primarily, the insufficient mobility of capital and the lack of flexibility in the markets. The markets do not react strongly enough to the imbalance, and in particular, to the lack of flexibility in salaries.

The varied intensity of unemployment, measured as the difference in unemployment rate among the provinces where it is the smallest and the largest, reached 1.63 in 2002 (26.2% in the Dolnośląskie province, and 16.2% in the Małopolskie province).

In 2002, the share of unemployed living in rural areas increased significantly. They amounted to 33.6% of all unemployed (compared to 33.9% in 2001). Unemployment rate in rural areas amounted to 17.7% in 2002 (compared to 16.4% a year earlier); and in urban areas to 21.3% (20.9% a year earlier). Lower rate of unemployment in rural areas can be due to low level of vocational activity in these areas.

## **Differences in the labour market due to gender**

The situation of women in the labour market is relatively worse – despite the fact that women are better educated and more active in seeking employment. The results of the BAEL research show that in 2002 women continued to be more threatened with unemployment – despite the fact, that in 2002 the decrease in the number of working women was smaller than of working men (by 1.7% and 2.7%, respectively). As a result, in 2002 the employment ratio reached 46.4% among women, and 56.9% among men.

## **9.4. Results of the National Census**

The results of the National Census, conducted by the Central Statistical Office in May 2002, can serve as supplement to the data presented above.

**Table 34. Basic information on the labour market on the basis of the national census**

Structure	Total	Professionally active	Employed	Unemployed
15–64	26,431	16,446	12,897	3,549
15–24	6,441	2,448	1,402	1,046
25–54	16,591	12,995	10,595	2,400
55–64	3,399	1,003	901	102

Structure	Activity ratio	Employment ratio	Unemployment rate	Unemployment ratio <sup>1)</sup>
15–64	62.2	48.8	21.58	13.4
15–24	38.0	21.8	42.74	16.2
25–54	78.3	63.9	18.47	14.5
55–64	29.5	26.5	10.18	3.0

<sup>1)</sup> Calculated as the ratio of unemployed in the given age group to the total number of persons in the given age group.

Source: CSO.

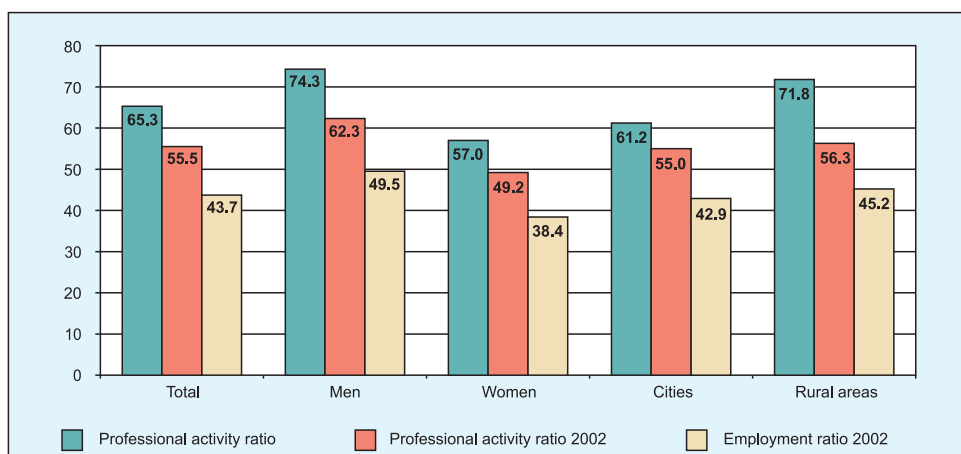
The comparison of the results of the national census from 1988 and of the latest one shows that the population representing effective labour resources decreased significantly – despite the fact that during that period, the total number of population aged 15 and over rose by 3 million people. In consequence, in 2002 the number of professionally active people was smaller by 1,676 thousand than in 1988. The number of professionally passive persons aged 15 and over has grown by 3,640 thousand. This shows that the process of professional de-activation of citizens has accelerated during the years 1988–2002.

A good statistical mechanism for analysing changes in the labour market is the professional activity ratio. It is defined as the share of professionally active persons in the total population of a given category, determined on the basis of age, gender or place of residence. Analysis of the professional activity ratio for 1988–2002 shows that professional activity during that period decreased<sup>4)</sup>. The

<sup>4)</sup> A methodology comment – in 1988, two categories of the labour market were separated: professionally active and professionally passive. The category of unemployment was not included. Therefore, the data for 2002, aside from professional activity ratio, shows also employment ratio.

professional activity ratio for the total population aged 15 and over in 1988 reached 65.3%, and in 2002, 55.5%. This means that during the first analysed period, almost two-thirds of population aged 15 and over was professionally active. Fourteen years later, only a little more than half of population of this age worked or was looking for work.

**Chart 19. Indicators of the labour market situation for persons aged 15 and over, on the basis of the national census of 1988 and 2002**



Source: CSO.

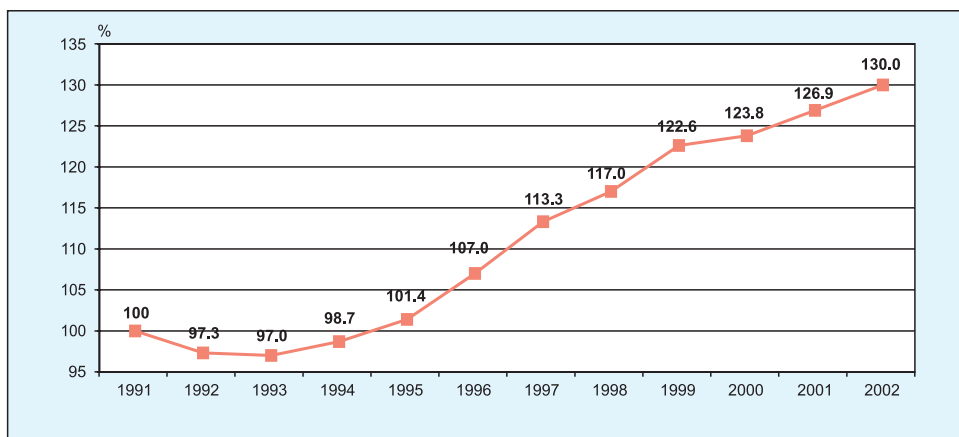
## 9.5. Average nominal and effective salary

In 2002, average nominal monthly salary in the national economy amounted to 2,133.21 PLN, which was an increase of 4.3% compared to last year. In the enterprise sector, average nominal salary amounted to 2,277.43 PLN, which was 6.7% more than the national average. In the public sector, it amounted to 2,148.71 PLN, 0.7% more than the national average.

The growth of salaries was quicker than the growth of Consumer Price Index, which led to the increase of effective salaries by 2.4% (in the enterprise sector by 1.5%, and in the public sector, by 1%).

Compared to 1992, effective salaries rose by 30%.

**Chart 20. Dynamics of effective salaries in the period 1992–2002 (1991 =100)**



Source: CSO.

## Chapter 10

# INFLATION – PRICES

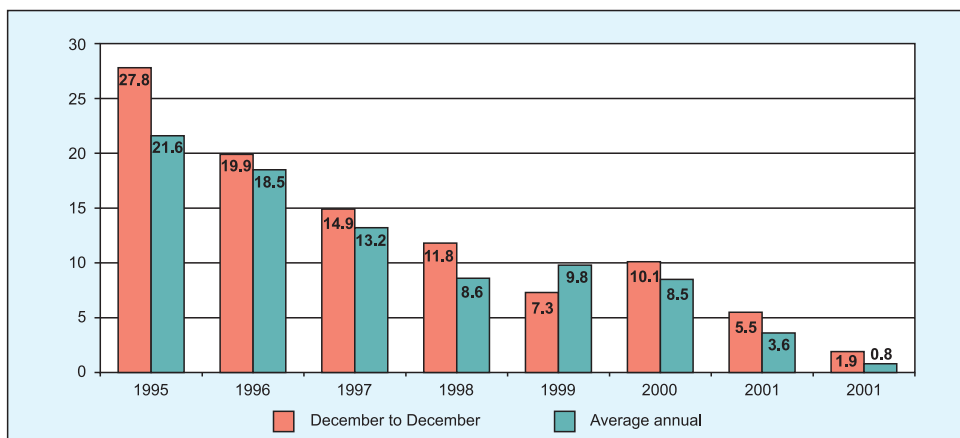
The year 2002, similarly as 2001, was characterised by further reduction in the growth of price indexes - both the Consumer Price Index and the Producer Price Index. The prices of construction and assembly production also fell. The dynamics of prices was the lowest since the start of economic transformations in Poland. The basic reason for such situation is the reduced internal demand, which forced businesses to engage in price competition. The main factors determining this situation include:

- decline of the prices of food, caused by the exceptionally high market supply of agriculture products, coupled with very weak demand;
- very low increase, and in some groups even a decrease, of the prices of non-food articles, which proves that the demand is very small.

## 10.1. Consumer Price Index

During the period of economic transformation, the prices of consumer goods and services declined gradually.

**Chart 21. Growth of the Consumer Price Index in 1995–2002 (%)**



Source: Statistical Bulletins of the Central Statistical Office.

The average annual growth of the Consumer Price Index in 2002 reached 1.9% and was lower both from the index written into the budgetary law (4.5%), and from its value achieved in the previous year. Measured December to December, prices rose by 0.8% (in 2001, by 3.6%).

The average annual increase of prices in 2002 was slower than during the previous year, by 3.6 percentage points. The largest increase was registered in the prices of goods and services tied to housing and energy carriers. A relatively high increase of prices was recorded in the health and education sector. The increase of prices of the said goods and services was lower than in 2001.

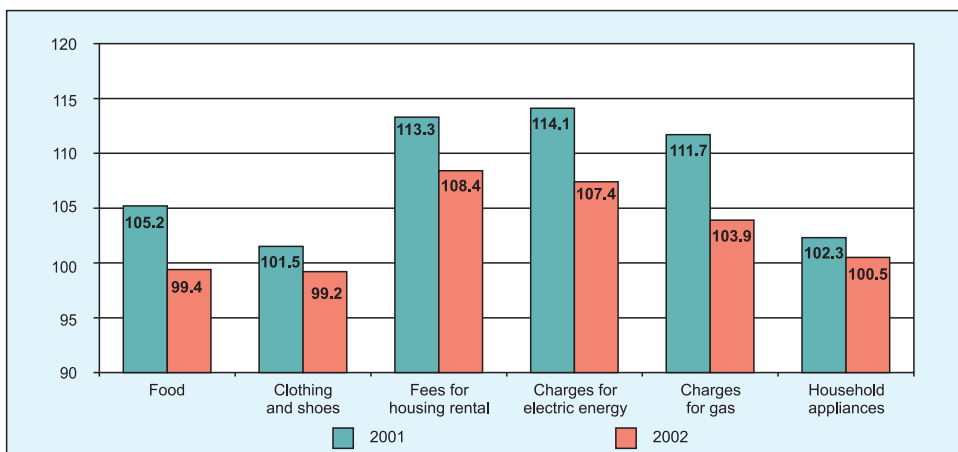
One of the few groups of goods and services where the price dynamics was higher than the result of 2001 was the section of transport. There, the price increase amounted to 1.1% (in 2001, a decrease of 0.4%), due to higher prices of railway transport (by 4.0%) and municipal bus transportation (by 4.9%).

The prices of food and non-alcoholic beverages dropped.

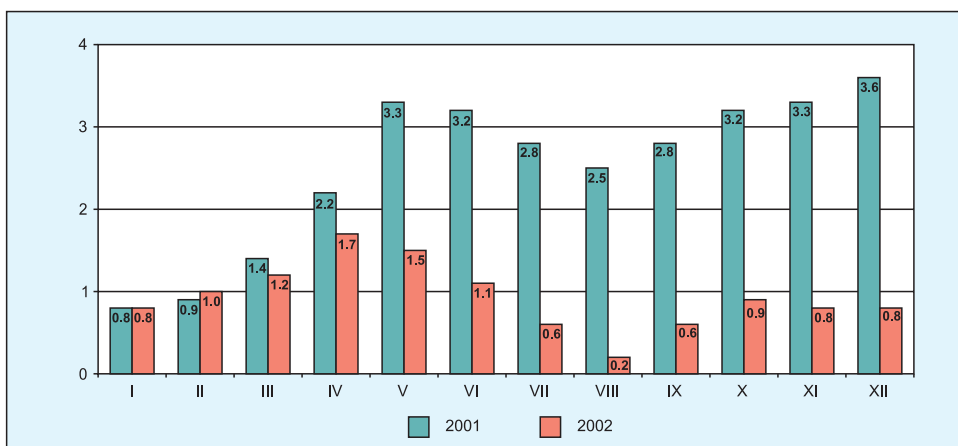
**Table 35. Changes of the Consumer Price Index (%)**

Description	year to year			December to December		
	2001/ 2000	2002/ 2001	Change (3-2)	2001/ 2000	2002 /2001	Change (6-5)
1	2	3	4	5	6	7
Consumer goods and services	5.5	1.9	- 3.6	3.6	0.8	- 2.8
– food and non-alcoholic beverages	5.0	- 0.7	- 5.7	1.6	- 2.7	- 4.3
– alcoholic beverages and tobacco products	4.3	2.3	- 2.0	4.9	- 4.1	- 9.0
– clothing and shoes	1.5	- 0.8	- 2.3	0.2	- 1.2	- 1.4
– use of housing and energy carriers	10.1	5.9	- 4.2	8.6	4.7	- 3.9
– home equipment and household management	3.8	1.9	- 1.9	3.0	0.9	- 2.1
– health	6.5	4.7	- 1.8	5.9	3.7	- 2.2
– transport	- 0.4	1.1	1.5	- 2.5	5.0	7.5
– communication	2.3	- 0.1	- 2.4	1.3	0.0	- 1.3
– education	6.9	4.1	- 2.8	4.9	2.5	- 2.4
– leisure and culture	6.3	2.5	- 3.8	4.1	2.1	- 2.0

Source: Statistical Bulletin of the CSO, January and July 2003.

**Chart 22. Dynamics of prices of selected groups of consumer goods and services in 2001 and 2002 (%)**

Source: Statistical Bulletin of the CSO, July 2003.

**Chart 23. Increases of the prices of consumer goods and services in individual months of 2001 and 2002, compared to December of the previous year (%)**

Source: Statistical Bulletin of the CSO, July 2003.

## 10.2. Prices of industrial output and of the construction and assembly production

The average annual prices of sold industrial output (Producer Price Index) rose slower than in 2001. In the mining and quarrying sector, the increase of prices was smaller than in the production and supply of electric energy, gas and water. In these sections, the increase of prices was slower than in 2001. In production activity prices dropped, similarly as in 2001.

From among the 21 sections of production activity, increases of prices were recorded in 12 areas, and a decline in 9. The largest increase was recorded in the production of tobacco products (by 3.5%), printing and publishing activity (by 2.0%), production of leathers (by 1.5%) and in the production of coke and petroleum products (by 1.4%).

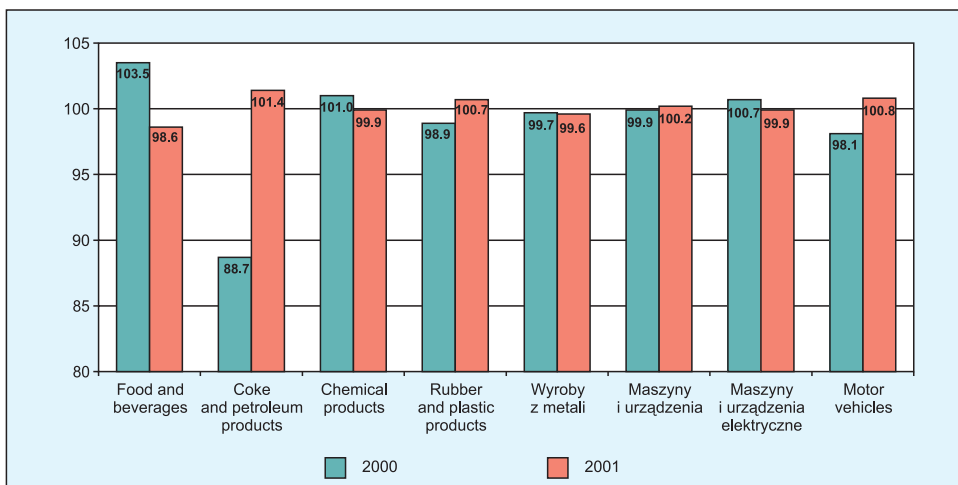
The largest decline of prices was seen in the production of medical and precise instruments (by 1.5%), production of food and beverages (by 1.4%) and in the textile industry (by 1.0%).

**Table 36. Growth of prices in industry and construction (%)**

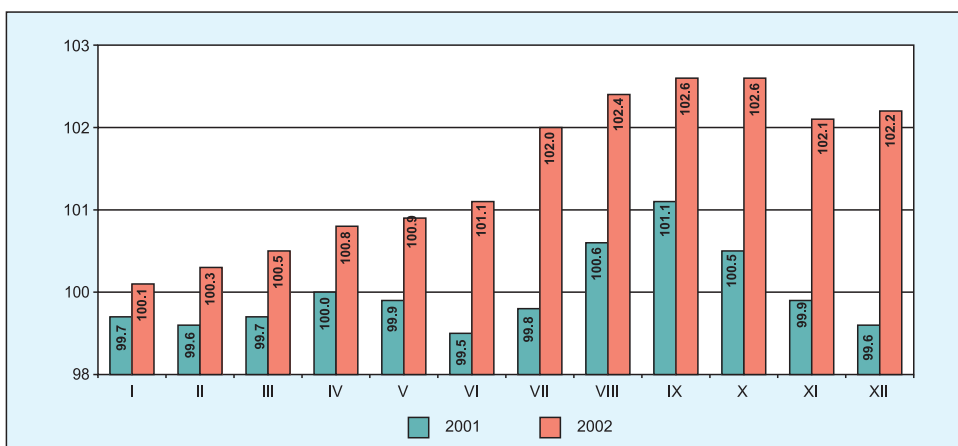
Description	year to year			December to December		
	2001/ 2000	2002/ 2001	Change (3–2)	2001/ 2000	2002/ 2001	Change (6–5)
1	2	3	4	5	6	7
Sold industrial output	1.6	1.0	- 0.6	- 0.4	2.2	2.6
Mining and quarrying	5.1	3.0	- 2.1	2.9	3.6	0.7
Production activity	- 0.2	- 0.1	0.1	- 2.6	1.4	4.0
– production and supply of electric energy, gas and water	11.3	7.0	- 4.3	10.8	6.8	- 4.0
Construction and assembly production	3.8	1.2	- 2.6	2.3	0.4	- 1.9

Source: Statistical Bulletin of the CSO, January and July 2003.



**Chart 24. Dynamics of the average annual prices in selected areas of the production activity in 2001 and 2002 (%)**

Source: Statistical Bulletin of the CSO, July 2003.

**Chart 25. Dynamics of the Producer Price Index in individual months of 2001 and 2002, compared to December of the previous year (%)**

Source: Statistical Bulletin of the CSO, July 2003.

The average annual prices of construction and assembly production rose by 1.2%; and measured December to December by 0.4%. In both cases, the growth of prices was slower than in the previous year, by 2.6 percentage points and by 1.9 points, respectively.

The main factors, which caused the prices to either grow at a slower rate or to go down, both in the case of sold production of industry and the construction and assembly production, include:

- A decrease of internal demand, especially demand for investment materials (the investment outlays in 2002 went down, compared to the previous year);
- decrease of the prices of petroleum oil in global markets;
- Increased labour effectiveness in industry, which enables the relative reduction of labor costs.

During the first half of 2003, the prices maintained the tendency of very moderate growth. The Consumer Price Index rose by 0.5%; Producer Price Index by 2.6%, and prices of construction and assembly production dropped by 0.8%.

The budgetary law for 2003 assumed that the average annual growth of Consumer Price Index would amount to 2.3%. Due to the favourable level of inflation rate in the 1st half of 2003, the Ministry of Finance in its recent forecasts (dated August 2003) estimated the average annual inflation at 1.5%.

## Chapter 11

# THE ORGANISATIONAL AND OWNERSHIP STRUCTURE OF THE ECONOMY

## 11.1. Changes in the number of business entities

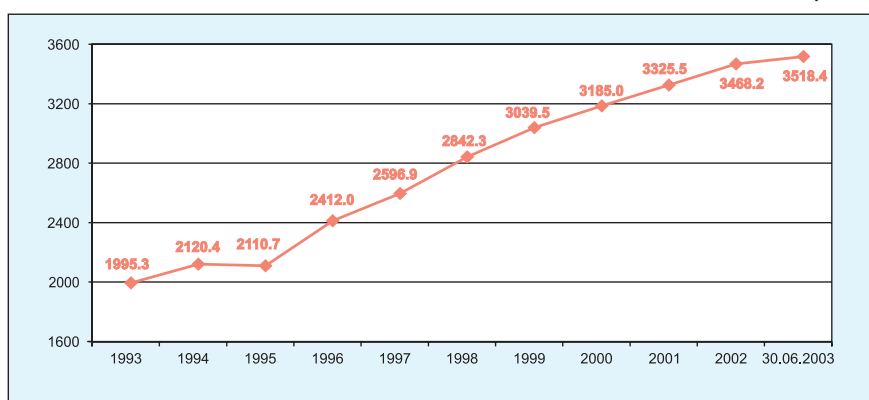
The process of ownership changes which have been occurring in Poland since the start of the 1990's caused deep changes, both in terms of the number of business entities and in their ownership structure. The changes have been realised in the creation of many new private business entities, and in the privatisation of the assets of the former state sector.

At the end of 2002, there were 3,468,218<sup>1)</sup> business entities active in Poland – including firms owned by individuals. This is an increase of 4.3%, compared to 2001. The number of state-owned enterprises, due to the continuation of privatisation processes, dropped in 2002 by 5% – by 103 enterprises – and amounted to 1,951. The number of cooperative enterprises was also reduced, from 18,812 at the end of 2001 to 18,682 in 2002.

During the first half of 2003, the total number of enterprises rose by 50,154 entities – by 1.4% – and amounts to 3,518,372 enterprises. The number of state-owned enterprises was reduced by 94, or by 4.8%, and the total number of such enterprises amounts now to 1,857.

**Chart 26. Number of business entities in 1993–2002, and in the first half of 2003**

(thousand)



Source: CSO, *Structural changes in the groups of economic entities in 2002*.

<sup>1)</sup> CSO, *Structural changes in the groups of economic entities in 2002*.

In 2002, the public sector comprised 120,593 business entities – which was 9,683 more than a year earlier. The private sector had 3,347,625 business entities, compared to 3,214,630 a year earlier. Despite the fact that in terms of absolute numbers private sector achieved a higher growth of business entities, its growth rate was lower (4.1%) than the growth rate of the public sector (8.7%). At the end of June 2003, compared to the situation at the end of 2002, the number of entities rose both in the public sector – by 26 thousand, to 132.2 thousand entities; and in the private sector – by 47.6 thousand, to a total of 3,395.2 thousand entities.

Compared to 2001, the largest increase (aside from firms owned by individuals – sole proprietorships) occurred in the group of commercial companies (by 11.1%). Their number rose by 19,596 companies, reaching a total of 196,681 firms at the end of 2002. The high dynamics in this group is due partly to the new Code of Commercial Companies, which came into force on 1<sup>st</sup> January 2001. According to the new regulations, since March 2001 a larger enterprise (defined as one with net revenues of at least 400,000 euro in 1999 and 2001), can operate only in the form of a commercial company. This situation led also to the reduction in the number of civil partnerships (see table).

During the 1<sup>st</sup> half of 2003, the number of commercial companies rose by 6,412 entities, reaching a total of 203,093 companies.

**Table 37. Changes in the number of entities with various organisational and legal forms in 1996–2002**

Description a – number of entities b – dynamics		status at 31.12.1997	status at 31.12.1998	status at 31.12.1999	status at 31.12.2000	status at 31.12.2001	status at 31.12.2002	status at 30.06.2003
Total	a	2,596,890	2,842,278	3,039,451	3,185,040	3,325,540	3,468,218	3,518,372
	b	107.7	109.4	106.9	104.8	104.4	104.3	101.4
Public sector	a	57,247	69,729	83,306	98,917	110,910	120,593	123,200
	b	103.1	121.8	119.5	118.7	112.1	108.7	102.2
Private sector	a	2,539,643	2,772,549	2,956,145	3,086,123	3,214,630	3,347,625	3,395,200
	b	107.8	109.2	106.6	104.4	106.3	104.1	104.4
State-owned enterprises	a	3,369	2,906	2,599	2,268	2,054	1,951	1,857
	b	87.6	86.3	89.4	87.3	90.6	95.0	95.2
Commercial companies	a	126,465	136,497	146,859	159,660	177,085	196,681	203,093
	b	109.3	107.9	107.6	108.7	110.9	111.1	103.3
Civil partnerships	a	245,374	272,008	288,956	302,717	290,890	280,547	
	b	110.0	110.8	106.2	104.8	96.1	96.4	
Other companies	a	1,385	1,507	1,561	1,641	1,681	1,744	
	b	112.0	108.8	103.6	105.1	102.4	103.7	
Cooperatives	a	19,775	19,638	19,328	19,011	18,812	18,682	
	b	99.5	99.3	98.4	98.4	99.0	99.3	
Individual-owned firms	a	2,090,013	2,274,493	2,417,737	2,500,952	2,666,855	2,714,118	2,750,804
	b	107.2	108.8	106.3	103.4	106.6	104.4	101.4

Source: CSO, *Structural changes in the groups of economic entities in 2002*.

In 2002, the total number of business entities rose across all areas of the economy. The largest number of businesses, similarly as in the previous years, commenced activity in the areas of: real estate services and services for businesses, education and financial services.

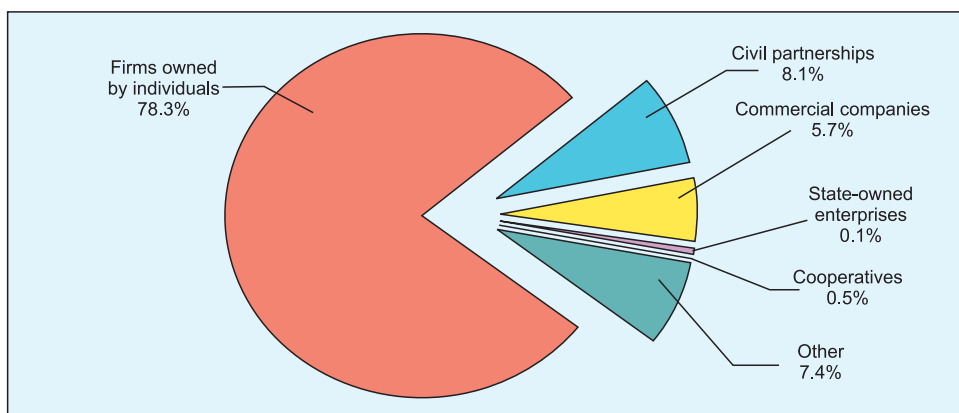
In terms of capital type, companies with a majority of private capital exerted a larger influence on the growth in the number of commercial companies. Private firms dominate the group of commercial companies, and their number rose by 12.5% in 2002. Domestic private entrepreneurs usually manage business activity as limited liability company. A much smaller number chooses the form of a joint stock company, or a general partnership. A similar trend is present among commercial companies with foreign capital, where limited liability companies constitute 97%. The total number of commercial companies with foreign capital rose by 3.5% in 2002. Commercial companies per type of capital and legal forms are presented in the table below.

**Table 38. Entities of the national economy according to sections of the Polish classification of business activity (PKD)**

Description		Total	of this:					
			State-owned enterprises	companies			Cooperatives	Individuals
				Total	Com-mercial	Civil		
1		2	3	4	5	6	7	8
Total of this:	a	3,325,540	2,054	469,656	177,085	290,890	18,812	2,600,127
	b	3,468,218	1,951	478,972	196,681	280,547	18,682	2,714,118
	c	104.3	95.0	102.0	111.1	96.4	99.3	104.4
Agriculture, forestry, hunting and fishing	a	84,328	34	8,304	3,579	3,671	3,409	68,570
	b	93,677	33	8,466	3,767	3,595	3,367	77,827
	c	111.1	97.1	102.0	105.3	97.9	98.8	113.5
Industry	a	375,560	932	82,202	38,869	43,098	2,242	289,172
	b	382,948	883	83,872	43,044	40,653	2,208	294,969
	c	102.0	94.7	102.0	110.7	94.3	98.5	102.0
Construction	a	352,784	358	46,178	19,908	25,040	917	306,020
	b	357,597	345	45,239	21,222	23,777	922	310,784
	c	101.4	96.4	100.1	106.6	95.0	100.5	101.6
Commerce and repairs	a	1,128,899	247	197,730	63,381	134,349	3,457	926,659
	b	1,168,108	229	200,017	72,353	1,270,663	3,394	963,682
	c	103.5	92.7	101.2	114.2	95.0	98.2	101.0
Hotels and restaurants	a	100,247	14	18,153	3,346	14,807	42	81,618
	b	105,880	11	18,902	3,738	15,164	42	86,375
	c	105.6	78.6	104.1	111.7	102.4	100.0	105.8
Transport, warehousing and communications	a	262,475	283	20,729	7,898	12,831	260	240,851
	b	267,130	257	21,240	8,617	12,623	248	245,023
	c	101.8	90.8	102.5	109.1	98.4	95.4	101.7
Financial services	a	116,344	2	6,715	3,279	3,430	1,032	107,695
	b	123,885	2	7,105	3,669	3,430	976	114,793
	c	106.5	100.0	105.8	111.9	100.0	94.6	106.6
Real estate services and services for businesses, education	a	470,857	178	63,742	29,278	34,450	7,173	326,575
	b	514,125	181	66,151	31,876	34,259	7,241	353,141
	c	109.2	101.7	103.8	108.9	99.4	100.9	108.1

Source: CSO, *Structural changes in the groups of economic entities in 2002*.

**Chart 27. Structure of business entities in 2002**



Source: CSO, *Structural changes in the groups of economic entities in 2002*.

**Table 39. Commercial companies per type of capital and legal forms**

Description a – 31.12.2001 b – 31.12.2002 c – dynamics	Total <sup>x</sup>	Per type of capital					
		State Treasury		state legal persons	local authorities	private domestic	foreign
		Total	of this, sole shareholder				
Total	a 177,085 b 196,681 c 111.1	2,376 2,335 98.3	756 721 95.4	5,319 5,157 97.0	2,415 2,524 104.5	147,522 165,956 112.5	45,765 47,352 103.5
Joint stock companies	a 8,486 b 86,609 c 101.4	1,475 1,428 96.8	503 469 93.2	773 748 96.8	358 362 101.1	7,311 7,440 101.8	1,273 1,315 103.3
Limited liability companies	a 161,049 b 169,022 c 105.0	899 904 100.6	253 252 99.6	4 529 4 390 96.9	2,056 2,159 105.0	132,673 139,492 105.1	44 477 45 980 103.4
Partnerships	a 206 b 418 c 202.9	- - -	- - -	- - -	- - -	206 418 202.9	- - -
General partnerships	a 6,803 b 17,978 c 264.3	1 2 200.0	- - -	11 13 118.2	- 2 -	6,796 17,968 264.4	5 22 440.0
Limited partnerships	a 538 b 645 c 119.9	1 1 100.0	- - -	6 6 100.0	1 1 100.0	533 629 118.0	10 35 350.0
Limited – joint stock companies	a 3 b 9 c 300.0	- - -	- - -	- - -	- - -	3 9 300.0	- - -

<sup>x)</sup> the sums of data broken down per type of capital do not equal the total number of companies, because companies with mixed capital are found in two or more columns of the table, depending on the type of capital involved in the company.

Source: CSO, *Structural changes in the groups of economic entities in 2002*.

At the end of 2002, the largest number of entities was found in the commerce and repairs section. Their number constituted 33.7% of all firms.

Companies from the sector of real estate services constituted 14.8% of all entities, compared to 14.1% a year earlier. Industrial firms are a large group among all enterprises (11%).

## 11.2. The share of the private sector in the economy

One of the goals of transformation is to increase the role of the private sector in the formation of the Polish economy. The private sector's share in gross value added rose from 40% in 1990 to about 74% in 2002; and in the number of employed, from 49% to more than 75% in 2002. The share of private sector in retail sales - which has always been a significant value - reached almost 98% in 2002. The role of private entrepreneurs is rising also in industry. In 2002, the share of private sector in the total sold industrial output reached more than 76%, compared to 30.8% in 1992. The share of the private sector is growing, every year, in the total revenues of enterprises, in their financial result, investment outlays and in commodities exchange with foreign countries. However, the share of the private sector in the economy is still lower than in the countries of the European Union.

**Table 40. The share of the private sector in the economy in 1993–2002 (%)**

Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Gross value added	47.9	<sup>46.4</sup> 45.5	60.6	62.8	67.2	69.5	70.4	71.5	71.8	74.0
Employed at the end of the year	58.9	61.0	62.8	65.0	68.2*	70.7*	71.3	73.7	74.8	75.0
Investment outlays	42.9	44.0	44.2	46.0	53.4	57.8	61.2	65.2	68.1	
Retail sales	89.2	90.8	92.4	92.9	94.4	95.0	95.0	95.0	97.7	98**
Export	44.0	51.3	56.8	62.9	74.3	78.8	81.0	83.6	86.4	88.7
Import	59.8	65.8	69.7	75.6	82.5	86.5	87.3	84.2	90.7	92.3

\* status at the end of September; \*\* forecast

Source: Data of the Central Statistical Office: *Statistical Yearbooks 1997, 1998, 1999, 2001; Statistical Bulletins 1998-2002; Report on the condition of economy in 2002; Concise Statistical Yearbook 2002.*

<sup>2)</sup>Data for 1994 is given: in numerator, in producer prices, in denominator – in base prices.

### 11.3. Development of small business

The development of small business, including enterprises owned by individuals, has huge importance for increasing the role of the private sector, and the for the development of the whole economy.

At the end of December 2002, were more than 2.7 million such entities registered in Poland, which amounted to almost 80% of all business entities. The largest number (about 1/3) of them operated in the sector of commerce and repairs, although their share dropped, compared to the previous year. The share of entities providing services tied to real estate grew. This sector has seen the largest increase in the number of new firms owned by individuals.

**Table 41. Companies owned by individuals, grouped according to the Polish Classification of Business Activity (PKD)**

Description	status at 31.12.2001	Share (%)	status at 31.12.2002	Share (%)	Change 2001/2002	Dynamice 2001=100	status at 30.06.2003
Total, of this:	2,666,855	100.0	2,714,118	100.0	47,263	101.8	2,750,804
Production activity	287,922	10.8	293,099	10.8	5,177	101.8	293,748
Construction	306,663	11.5	310,784	11.5	4,121	101.3	312,046
Transport, warehousing and communications	241,273	9.0	245,023	9.0	3,750	101.6	245,701
Commerce and repairs	927,917	34.8	963,682	35.5	35,765	103.9	977,062
Hotels and restaurants	81,764	3.1	86,375	3.2	4,611	105.6	89,426
Financial services	107,793	4.0	114,793	4.2	7,000	106.5	115,817
Real estate services and services for businesses, education	326,705	12.3	353,141	13.0	26,436	108.1	361,170

Source: CSO, *Structural changes in the groups of economic entities in 2002*.



## 11.4. Ownership transformation within the sector of state-owned enterprises

Privatisation of the state-owned sector is one of the basic elements of the far-reaching systemic changes during the process of economic transformation. On 13th July 1990, the law on privatisation of state-owned enterprises was adopted. It was a comprehensive legislative act, regulating in detail all issues tied to ownership transformation and privatisation of state-owned economic entities<sup>3)</sup>. The privatisation law remained in force until 8<sup>th</sup> April 1997, when it was replaced by the law on commercialisation and privatisation of state-owned enterprises, adopted by the Parliament on 30<sup>th</sup> August 1996 (Journal of Laws of 1996, no. 118, item 561, with subsequent amendments). That law introduced and defined the concept of commercialisation. The law retained the basic manners for privatisation: capital privatisation (called 'indirect' by the law), and direct. The said law is currently the basic legislative act used as the basis for ownership transformation in Poland.

Based on the provisions contained in the privatisation law, and using the regulations of other legislation<sup>4)</sup>, there are three main procedures for dealing with state-owned enterprises:

- transformation of a state-owned enterprise into a single-owner company of the State Treasury (commercialisation) with view of further privatisation, or transforming the enterprise into a company with the participation of creditors, as a result of conversion of their debt into shares;
- direct privatisation through the sale, contribution into a company or giving the assets of privatised enterprise into paid usufruct;
- liquidation of the enterprise for economic reasons.

The assets of former state farms are subject to a separate procedure<sup>5)</sup>.

<sup>3)</sup> The introduction of legislative changes was initiated in the autumn of 1987. At that time, amendments were introduced into art. 29 of the law dated 25<sup>th</sup> September 1981, on state-owned enterprises.

<sup>4)</sup> Such as: the law dated 25.09.1981 on state-owned enterprises; law dated 03.02.1993 on the ownership transformation of some state-owned enterprises of special importance for the national economy; the law dated 30.06.1993 on the National Investment Funds and their privatisation; the law dated 19.10.1991 on the management of agricultural real estate of the State Treasury.

<sup>5)</sup> Data of the CSO. Since 1992, coordination process of the assets of the former state farms and the decision on their management belongs to the State Agency of Agricultural Property. Process of their liquidation had been completed in 1995. The assets of 1654 former state farms (3758.1 thousand hectares) have been included into the Stock of the State Agency of Agricultural Property, which included in their supervision also the land of the National Land Fund (608 thousand hectares).

31<sup>st</sup> December 1990 had been set as the start date of the privatisation process. On this day, there had been a total of 8453 of state-owned enterprises. By the end of June 2003, 7,027 enterprises had been included in the process of ownership transformation. This means that over 83% of all state-owned enterprises registered in 1990 participated, or are participating, in the privatisation process.

Of this number, 22% were commercialised; 28.6% privatised directly; 25.7% liquidated for economic reasons, and 23.7% were the former state farms, passed into the Stock of the State Agency of Agricultural Property. At the end of 2002, the register of state-owned enterprises contained 1,411 state-owned entities (see table).

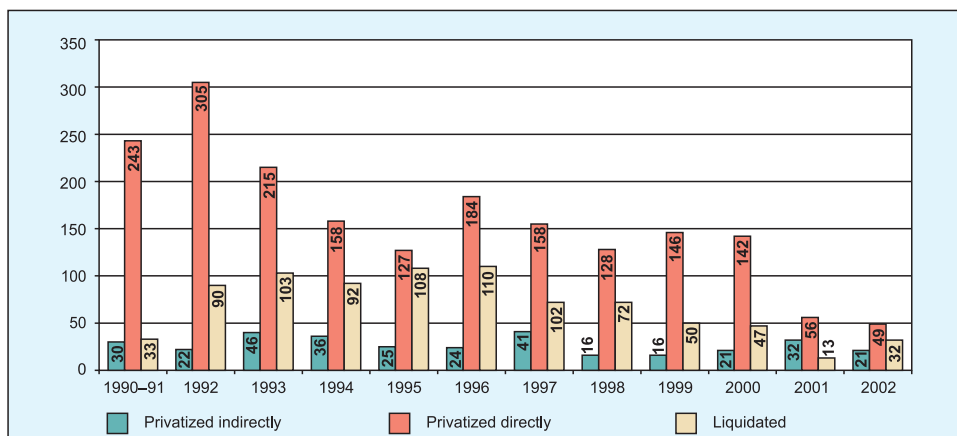
**Table 42. State-owned enterprises<sup>6)</sup>, included in the privatisation process in 1990–2002, per method of privatisation and sector of activity**

Description	Total	Commercialized	Subjected to	
			Liquidation	Direct privatisation
<b>Total, of this:</b>	<b>5,328</b>	<b>1,535</b>	<b>1,795</b>	<b>1,998</b>
Industry of this:	2,688	1,227	696	765
Production activity	2,448	1,045	667	736
Construction	927	131	353	443
Commerce and repairs	619	53	232	334
Transport, warehousing and communications	406	73	202	131

Source: CSO, *Privatisation of state-owned enterprises in 2002*.

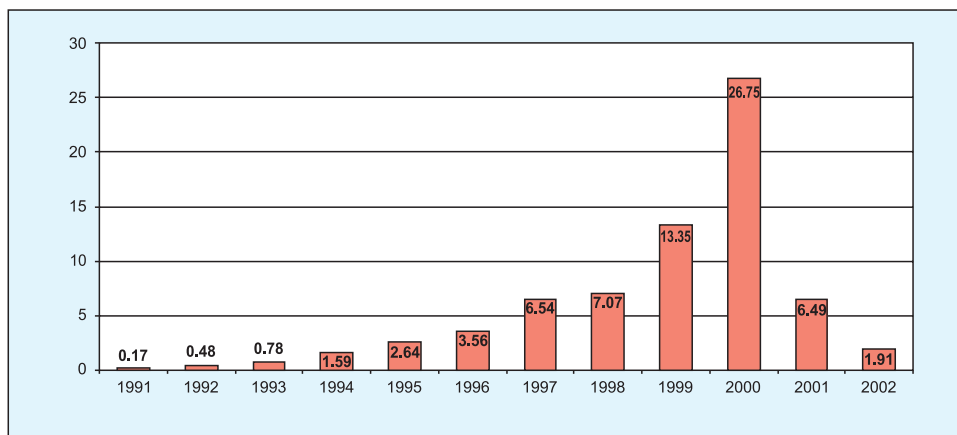
During the last two years, the speed of privatisation processes slowed down. Only 49 state-owned enterprises were privatised directly in 2002, whereas in 2000 this number was almost three times higher.

<sup>6)</sup> Without the former state farms included in the Stock of the State Agency of Agricultural Property.

**Chart 28. State-owned enterprises<sup>7)</sup> privatised indirectly, directly and liquidated in the individual years from 1990 to 2002**

Source: CSO, *Privatisation of state-owned enterprises in 2002*.

Budget revenues on privatisation in 2002 were much smaller than in the previous year. Their level was lower than before 1995.

**Chart 29. Budget revenues on privatization in 1990–2002**

Source: CSO, *Privatisation of state-owned enterprises in 2002*.

<sup>7)</sup> Without the former state farms included in the Stock of the State Agency of Agricultural Property.

### 11.2.1. Commercialisation and capital privatisation

The first stage of privatisation is the commercialisation: the state-owned enterprise is transformed into a sole shareholder company of the State Treasury. Next, the shares or stocks in such company are sold to investors – this is the actual privatisation. According to the data of the Ministry of Treasury, in 2002 the Minister of Treasury signed commercialisation deeds for 10 state-owned enterprises. 11 new sole shareholder companies of the State Treasury have been entered into the Commercial Register (including 7 companies from the sector of transport, warehousing and communication; 1 enterprise operating in production activity; and 1 in mining and quarrying).

By the end of 2002, 1,521<sup>8)</sup> state-owned enterprises have transformed into sole shareholder companies of the State Treasury (14 of them with the participation of creditors who received shares in return for their receivables).

At the end of 2002, more than half of these companies did not achieve profit.

The next phase of privatisation is the sale of shares or stocks held by the State Treasury in the sole shareholder companies of the State Treasury. Since the beginning of the transformation process, 330<sup>9)</sup> of sole shareholder companies of the State Treasury have been privatised indirectly. Of this number, 111 companies were privatised by foreign capital. In 2002, the Minister of State Treasury and the Privatisation Agency commenced privatisation processes of 21 companies. Share packages in 4 companies were sold via a public tender. In the case of 17 companies, negotiations were commenced on the basis of a public invitation. Revenues from indirect privatisation amounted to 2,579.2 million PLN in 2002<sup>10)</sup> The largest privatisation contracts in 2002 included the privatisation of Warsaw-based power distributor STOEN S.A., Wytwórnia Sprzętu Komunikacyjnego PZL-Rzeszów S.A. in Rzeszów and the Elektrownia Skawina S.A. (power plant in Skawina).

Companies which are privatised indirectly are in the best economic condition from among all entities included in the privatisation process. 58% from among these companies achieved net profits in 2002.

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<sup>8)</sup> Data of the CSO. According to the data of the Ministry of Treasury, 1,505 entities + 1 bank have been commercialised until the end of 2001.

<sup>9)</sup> CSO, Privatisation of state-owned enterprises in 2002.

<sup>10)</sup> According to the data of the Ministry of Treasury.

### 11.2.2. Direct privatisation

Direct privatisation process is applied primarily in the case of small and medium-sized state-owned enterprises. Until 31<sup>st</sup> December 2002, 1,911 state-owned enterprises covered by the direct privatisation process were deleted from the register of state-owned enterprises. This constitutes about 95.6% of all commenced privatisation procedures<sup>11)</sup>. In the 1<sup>st</sup> half of 2003 further 20 state-owned enterprises were privatised with the direct method. According to the data of the Ministry of State Treasury, so far 2,128 motions for direct privatisation filed by founding bodies have been approved. Of this, 44 such motions were approved in 2002. Of this total number, privatisation processes were completed for 1,994 entities which were removed from the register of state-owned enterprises (63 of them completed privatisation in 2002). Revenues from direct privatization amounted in 2002 to 280.3 million PLN.

So far, the most popular form of direct privatisation was the handing of assets into paid usufruct by a company established by employers (65.4% of enterprises). Sale of assets through a public tender, or negotiations on the basis of a public invitation, occurred in the case of 21.7% of enterprises. Assets of 10.1% of enterprises were contributed into newly established companies.

**Table 43. Direct privatisation according to the mode of disposing the assets**

Enterprises, in which the assets were disposed through		Status at:		
		31.12.2000 r.	31.12.2001 r.	31.12.2002 r.
Total	Started completed	1,850 1,775	1,937 1,855	1,998 1,911
Sale of assets		374	397	415 <sup>12)</sup>
Contribution into company		171	181	193
Given into paid usufruct		1,175	1,223	1,249
Mixed manner		55	54	54

Source: CSO, *Privatization of state-owned enterprises in 2002*.

<sup>11)</sup> Data of the Central Statistical Office.

<sup>12)</sup> According to the Ministry of Treasury, 492 enterprises have been sold, 220 were privatised as contribution into the new company, and 1349 were given for paid usufruct.

### 11.4.3. Liquidation for economic reasons

The bankruptcy liquidation is applied in case of enterprises which are in difficult economic situation and with no chance to achieve profits. The moment of paying off creditors or securing debt marks the end of the existence of the enterprise, as an object and subject. Until the end of 2002, 1,795 enterprises have been liquidated. In 852 cases, this process was completed<sup>13)</sup>.

**Table 44. Privatisation through liquidation for economic reasons, according to the mode of disposing the assets**

Enterprises, in which the assets were disposed through		Status at:		
		31.12.2000 r.	31.12.2001 r.	31.12.2002 r.
Total	Started completed	1,694 797	1,746 820	1,795 852
Sale of assets		330	346	354
Contribution into company		33	33	34
Given into paid usufruct		17	17	19
Mixed manner		17	17	17
Other manner of assets transfer		400	407	428

Source: CSO, *Privatization of state-owned enterprises in 2002*.

By the end of the 1<sup>st</sup> half of 2003, liquidation processes covered a total of 1,820 state-owned enterprises, of which 878 were liquidated (48%). During the 1<sup>st</sup> half of 2003, 26 state-owned enterprises were liquidated due to poor financial condition.

<sup>13)</sup> According to the CSO. According to the Ministry of Treasury, liquidation process has been commenced in 1795 entities, completed in 899 cases, and 680 enterprises declared bankruptcy.

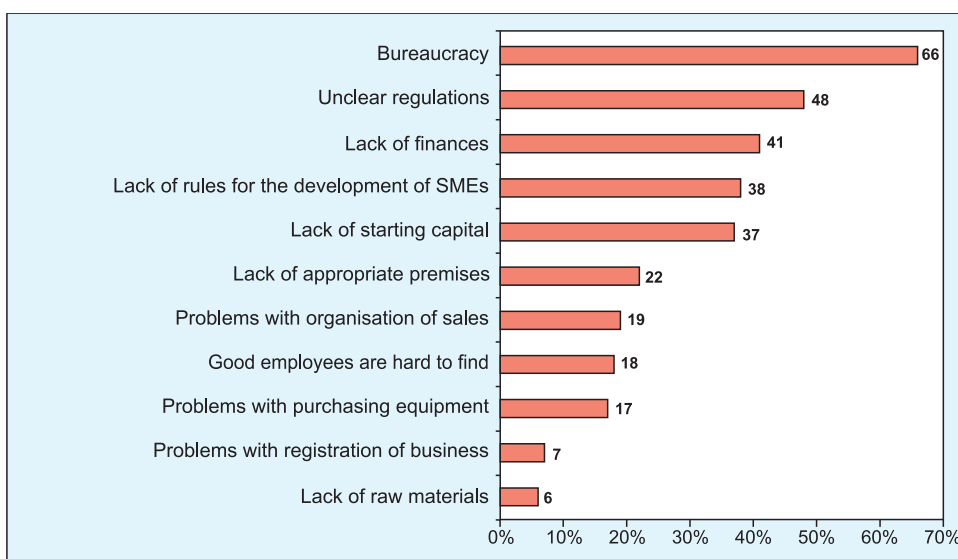
## Chapter 12

# ENTERPRISE IN POLAND<sup>1)</sup>

## 12.1. Barriers to enterprise development

The entrepreneurs voice a number of problems that they encounter, which commence at the moment of making the decision to undertake business activity.

**Chart 30. Obstacles to managing an own business, listed most frequently by young owners of newly established firms**



*Source: Results of a survey conducted by public opinion polling centre IPSOS-Demoskop in 2001 under commission from PAED.*

The problems most frequently cited by entrepreneurs include:

1. The time-consuming procedures tied to the obligation for registering the new business with the municipal authorities, or with the business registry departments

<sup>1)</sup> A comprehensive diagnosis regarding the condition of enterprise in Poland, was presented in a report of the Ministry of Economy, Labour and Social Policy, "Enterprise in Poland". This report was adopted by the Council of Ministers on 17th March 2003, and published on the website of the Ministry, [www.mg.gov.pl](http://www.mg.gov.pl).

- in courts (problem with proper filling of forms, lack of information at the registry departments, too long deadlines for registration of new applications);
2. The need to complete many formalities, such as the need to obtain the identification number of the national register of economic entities (REGON), the tax identification number (NIP), social security registration; need to notify the appropriate sanitation & hygiene inspection and labour inspection; the need to obtain permits and licenses if required for the type of business; to open a bank account;
  3. The need to have many required permits, certificates and licenses, without which it is impossible to manage various forms of business activity. At this time, there are about 100 of such permits;
  4. The need to undergo many inspections and controls, which is due to the significant number of institutions authorised to control businesses. At this moment, Poland has about 40 different institutions which can control an enterprise. There are some areas where the functions and tasks of such institutions overlap – which means that entrepreneurs are subject to double control;
  5. Ineffective court system, which leads to protracted investigation of business cases by the courts. The costs of court proceedings are also very significant. This causes a situation where many entrepreneurs choose not to enforce their rights in court.
  6. The difficult access to external sources of financing is also an obstacle to enterprise development. small and medium-sized enterprises continue to finance their development mainly with their own resources. Such tendency is reported by over 90% of firms from the SME sector.

The main problem which limits the ability of SMEs to access bank credits is the lack of credit history and creditworthiness – lack of appropriate credit collateral. This is very common among small enterprises, and even more common among persons commencing business activity. Another barriers are the complexity of credit applications; and the selection of simplified forms of taxation, which means that the accounting of companies choosing such taxation is also simplified.

Aside from the banking sector, the entrepreneurs – mainly small companies – have access to alternative external sources of financing, such as loan or guarantee funds. Unfortunately, this system is not developed well enough yet.



## 12.2. Instruments for enterprise support

Support for enterprise development is a priority of the current Government. Recently, the government has undertaken several initiatives addressed at small and medium-sized enterprises. These activities are meant to remove the basic obstacles, quoted many times by the entrepreneurs and pertaining mainly to changes in legislation regarding the conduct of business activity.

### 1) Long-term strategy

The most important government initiative, addressed at small and medium-sized enterprises, is the program defining the **government policy guidelines for small and medium-sized enterprises for 2003–2006**. This program was adopted by the Council of Ministers in February 2003.

The purpose of the activities supporting small and medium-sized enterprises, undertaken by the Government, is to stimulate the economic activity of these firms, which guarantees increase of employment, increase of their competitiveness and the ability to function in the Single European Market. The government policy towards small and medium-sized enterprises is executed with the use of legal, organizational, information, training and financial instruments in the following areas:

- support of undertakings which further the development of enterprises,
- improvement of the legal and administrative environment of SMEs,
- development of the institutional environment of SMEs,
- support for the integration of firms and their international activity.

small and medium-sized enterprises are the beneficiaries of direct support activities.

In 2003, the Government allocated about 53 million PLN from the state budget for the implementation of the "Policy guidelines". *Support is also available for business organisations and institutions, in order to best meet the needs of entrepreneurs.*

Currently Polish entrepreneurs can obtain support from domestic resources and from the funds offered by the European Union.

Domestic resources – in the form of subsidies – can be designated for:

- preparation of a joint offer by two or more firms – financing of part of advisory services, tied to the preparation of offers for a public procurement tender;
- consolidation – financing of part of advisory services, tied to the merger with another small or medium-sized entrepreneur;

- execution of a joint project – financing of part of advisory and training services, tied to the preparation of a plan for development of activity, for investment and/or for participation in fair or exhibition, for associations, cooperatives and companies;
- obtaining certificates in the area of management of quality, environment and labour safety and hygiene;
- subsidising the costs of training on enterprise management.

## 2) The activities undertaken so far.

In January 2002, the Council of Ministers adopted the document **Assumptions for the package “Enterprise First of All”**. This document is one of the fundamental elements of the economic strategy “Enterprise – Development – Jobs”. The solutions, adopted under the package “Enterprise First of All”, have commenced the process of simplifying the business laws, and reducing the charges on entrepreneurs.

The document lists legislative acts which should be amended, together with the essence of proposed amendment; as well as new legislative initiatives which should be undertaken. These changes are meant to facilitate the commencement and management of business activity; remove the bureaucratic obstacles and facilitate procedures; introduce more user-friendly tax regulations and procedures; simplify the social insurance system; and to make the labour regulations more flexible.

Drafts of more than 25 legislative acts, adopted by the Council of Ministers, have been sent to the Parliament. Most of them have already been adopted.

Many of the solutions contained in the adopted legislation will be particularly beneficial for smaller firms, which dominate the Polish economy. In particular, many solutions introduced into the labour law shall limit requirements of bureaucratic nature. Some of the new solutions introduced into the tax regulations will also be particularly favorable for small companies.

The solutions adopted in the package will be available to all enterprises, regardless of their size. These solutions simplify or facilitate various existing procedures, and reduce the charges on entrepreneurs.

The package covers all these areas where – according to the opinion of entrepreneurs – the most serious obstacles to business activity are found.

Continuation of the activities commenced by the package is the “Plan of Growth-Supporting Activities for 2003–2004”, adopted by the Council of Ministers on 1<sup>st</sup> July 2003<sup>2)</sup>. The tasks presented in this plan are meant to increase the rate of economic growth, by stimulation of enterprise. This goal is to be achieved by:

- overall normalisation of the rules for conducting business activity (draft law on economic freedom);
- simplified registration of new businesses;
- increased participation of entrepreneurs in the market of public procurement;
- improved collection of debts and financial obligations;
- simplification, modernisation and acceleration of issues tied to records made into mortgage registers;
- changes to these regulations which hinder the activities of individual groups of entrepreneurs.

In order to facilitate entrepreneurs access to external sources of financing, the Government prepared a programme to develop the system of loan and loan guarantee funds for small and medium-sized enterprises in 2002–2006. This program is called “**Capital for Enterprise**”. This programme was adopted by the Council of Ministers on 13<sup>th</sup> August 2002.

The goal of the programme is to build, over the next four years, a network consisting of about 100 local and 16 regional loan guarantee funds, for small and medium-sized enterprises; and about 100 local and 16 regional loan funds, for small companies.

The core of the network of loan guarantee funds would be the Bank Gospodarstwa Krajowego; and of the network of loan funds – Polish Agency for Enterprise Development.

In 2002, **10** loan funds were selected in a competition, and received capital support from budget resources, amounting to a total of **8.3 million** PLN. **11** loan guarantee funds received **9.5 million** PLN of capital support.

To offer entrepreneurs better access to the market of public procurement, a separate programme “**Public Procurement for the Entrepreneurial**” was developed. It was adopted by the Ministry of Economy in December 2002.

The goal of that programme is to guarantee small and medium-sized enterprises better and fuller access to the market of public procurement.

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<sup>2)</sup> The document is available on the website of the Ministry, [www.mg.gov.pl](http://www.mg.gov.pl)

Currently the Office of Public Procurement is working on a new public procurement law, which would include the assumptions of the government programme.

### **3) Projects tied to accession to the European Union**

An Internet database was created, containing information on the regulations of the European Union ([eulex.mg.gov.pl](http://eulex.mg.gov.pl)). It offers the entrepreneurs access to Polish-language syntheses of EU legislation, important for conducting business activity. Currently this database contains about **3 600** of such regulations.

A country-wide education and information campaign, regarding the stock exchange and regulated over-the-counter capital markets, is currently underway. The campaign is directed primarily at small and medium-sized companies. An Internet portal, [www.e-msp.pl](http://www.e-msp.pl), dedicated to the market of securities, was created.

## Chapter 13

# FINANCIAL SITUATION OF THE ENTERPRISE SECTOR<sup>1)</sup>

### 13.1. The financial situation and determining factors

The financial results and all economic and financial indices which characterise business entities in 2002 were slightly better than in the previous year. The net financial result, similarly as a year ago, was negative and amounted to 1,960 million PLN (in 2001, -2,553 million PLN). Reduction of the negative net financial result by 23.2%, coupled with stabilization of revenues on overall activity (which dropped by 0.2%), caused a slight improvement in net profitability, which increased from -0.3% to -0.2%. The financial situation of business entities was negatively affected by the worsening economic situation, both domestic and global, and the resulting reduction in investment demand.

#### 13.1.1. Gross financial result

In 2002, the gross financial result improved. It reached the level of 7,312 million PLN, which was an increase of 14.9%, compared to last year. In terms of absolute values, the improvement reached 946 million PLN. Gross financial result consisted of profits of 36,160 million PLN (an increase of 13.3%); and of losses of 28,848 million PLN (increase of 12.9%).

In 2002, the share of firms which achieved gross losses among the total number of business entities amounted to 33.2% (in 2001, 37.9%).

In industry, the result reached 6,067 million PLN, and rose by 2,856 million PLN. In the construction sector, similarly as in 2001, a negative financial result was recorded. It amounted to -833 million PLN, 15 times worse than a year earlier. In commerce, the result dropped by 1,039 million PLN (by 61.2%). In the sector of transport, warehousing and communications, the result was better by 871 million PLN (from -276 million to plus 595 million PLN).

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<sup>1)</sup> Applies to enterprises of the non-financial sector, employing more than 49 workers.

The private sector achieved a positive gross result, amounting to 11,286 million PLN (an increase of 34.1%). In the public sector, similarly as a year earlier, the gross financial result was negative. It reached -3,974 million PLN, almost twice as high as in 2001. The disproportion in the changes in financial situation between the private and public sectors is caused, among other reasons, by privatisation processes. As a result of privatisation, the private sector takes over the most effective business entities from the public sector. Meanwhile, entities with worse effectiveness, whose business results continue to deteriorate (such as the hard coal mining sector), remain within the public sector.

**Table 45. Gross financial result in 2001 and 2002**

Description	Gross financial result in million PLN		Change	Dynamics
	2001	2002	(3-2)	in %
1	2	3	4	5
Total	6,366	7,312	946	114.9
Industry	3,211	6,067	2,856	188.9
Construction	- 54	- 833	- 779	15 razy
Commerce and repairs	1,680	641	- 1,039	38.2
Transport, warehousing and communications	- 276	595	871	X
From the "total", the following amounts are attributed to:				
– private sector	8,419	11,286	2,867	134.1
– public sector	- 2,053	- 3,974	- 1,921	193.6

*Source: Financial results of business entities, January – December 2001 and 2002, CSO; and own calculations.*

*Note: the shaded fields in the table mark the changes (increase or decrease) of losses.*

Gross financial result is determined by: the result achieved on the sales of products, goods and materials; and the financial activity result.

**Table 46. Components of the gross financial result in 2001 and 2002**

a – 2002 b – 2001 c – difference (a-b)		Total	of this:			
			Industry	Construc- tion	Com- merce	Transport
Result on the sale of products, goods and materials	a	29,861	20,411	82	3,052	4,714
	b	23,302	15,391	1,096	2,892	2,251
	c	6,559	5,020	- 1,014	160	2,463
Result on other operating activity	a	- 4,355	- 4,648	- 248	268	- 311
	b	- 458	- 1,188	- 185	750	218
	c	- 3,897	- 3,460	- 63	- 482	- 529
Financial activity result	a	- 18,428	- 9,872	- 674	- 2,734	- 3,785
	b	- 16,555	- 11,029	- 983	- 2,033	-2,696
	c	- 1,873	1,157	309	- 701	- 1,089
Result on extraordinary events	a	234	176	7	55	- 23
	b	77	37	18	71	- 49
	c	157	139	- 11	- 16	26
Gross financial result	a	7,312	6,067	- 833	641	595
	b	6,366	3,211	- 54	1,680	- 276
	c	946	2,856	- 779	- 1,039	871

Source: *Financial results of business entities, January – December 2001 and 2002, CSO; and own calculations.*

The main factor contributing to the growth of gross financial result, compared to last year, was the improved result on the sales of core output.

### 13.1.2. Net financial result

The statutory charges on the gross financial result for the state budget amounted to 9,272 million PLN (3.9% more than a year earlier). These charges amounted to 126.8% of the gross financial result (a year earlier, 140.1%). The net financial result, similarly as a year ago, was negative and amounted to 1,960 million PLN (in 2001, -2,553 million PLN). This result consisted of profits of 26,617 million PLN (an increase of 13.6%); and of losses of 28.577 million PLN (increase of 10.0%).

In 2002, the share of revenues of enterprises demonstrating net profits in their revenues on overall activity reached 73.3%, and was higher by 5.6 percentage points compared to 2001. The share of firms which achieved net losses among the total number of business entities amounted to 34.3% (in 2001, 39.2%).

In the whole economy, net financial result improved by 593 million PLN: from - 2,553 million in 2001 to -1,960 in 2002. This was due to the better result in industry

and in transport, warehousing and communication; and to the worse result in the construction and commerce sectors.

**Table 47. Net financial result in 2001 and 2002**

Description	Net financial result in million PLN		Change	Dynamics
	2001	2002	(3-2)	in %%
1	2	3	4	5
Total	- 2,553	- 1,960	593	76.8
Industry	- 1,543	976	2,519	x
Construction	- 636	- 1,180	- 544	185.5
Commerce and repairs	407	- 749	- 1,156	x
Transport, warehousing and communications	- 1,531	- 767	764	50.1
From the "total", the following amounts are attributed to:				
– private sector	1,810	3,994	2,184	220.7
– public sector	- 4,363	- 5,954	-1,591	136.5

*Source: Financial results of business entities, January – December 2001 and 2002, CSO; and own calculations.*

*Note: the shaded fields in the table mark the areas where changes of losses occurred.*

In the private sector, the positive financial result increased almost two-fold, reaching the sum of 3,994 million PLN. In the public sector, the negative financial result deteriorated further, by 1,591 million PLN (by more than one-third) and amounted to 5,954 million PLN. The reasons for disproportions in the changes in financial situation between the private and public sector in 2002 are described in section 14.1.3. The same disproportions apply to the net result. In this case, the disproportion deepens as a result of the differences in the degree of statutory charges (the ratio of the negative financial result in the public sector to the positive financial result in the private sector, achieved in 2002, amounts to 35.2% in the case of gross result, but rises to 149.1% in the case of net result).

Among all business entities, the highest net profits in 2002 were achieved by:

- Telekomunikacja Polska S.A. 957 million PLN
- Polkomtel S.A. (Plus GSM) 516 million PLN
- EuRoPol Gaz S.A., operator of gas transit pipelines 452 million PLN



- Polski Koncern Naftowy Orlen S.A. 382 million PLN
- Polska Telefonia Cyfrowa sp. z o. o. (Era GSM) 347 million PLN
- Polskie Górnictwo Naftowe i Gazownictwo S.A. 340 million PLN

The largest net losses were incurred by the following companies:

- Stocznia Szczecińska Porta Holding S.A. (under liquidation) 1,621 million PLN
- PKP Przewozy Regionalne sp. z o. o. 1,101 million PLN
- GK Holdings Netia S.A. 675 million PLN
- Telefonia Dialog sp. z o. o. 452 million PLN
- PKP Polskie Linie Kolejowe (state railways) 425 million PLN
- Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji S.A. Warsaw (Municipal water and sewage company) 396 million PLN

### 13.1.3. Profitability indices

The profitability of sales, gross turnover and net turnover improved across the whole economy. As for the individual sectors, the profitability indices improved in industry, transport, warehousing and communications. They were also better in the private sector. A decrease of profitability was recorded in construction and commerce; and in the public sector.

**Table 48. Profitability indices in 2001–2002, and their changes**

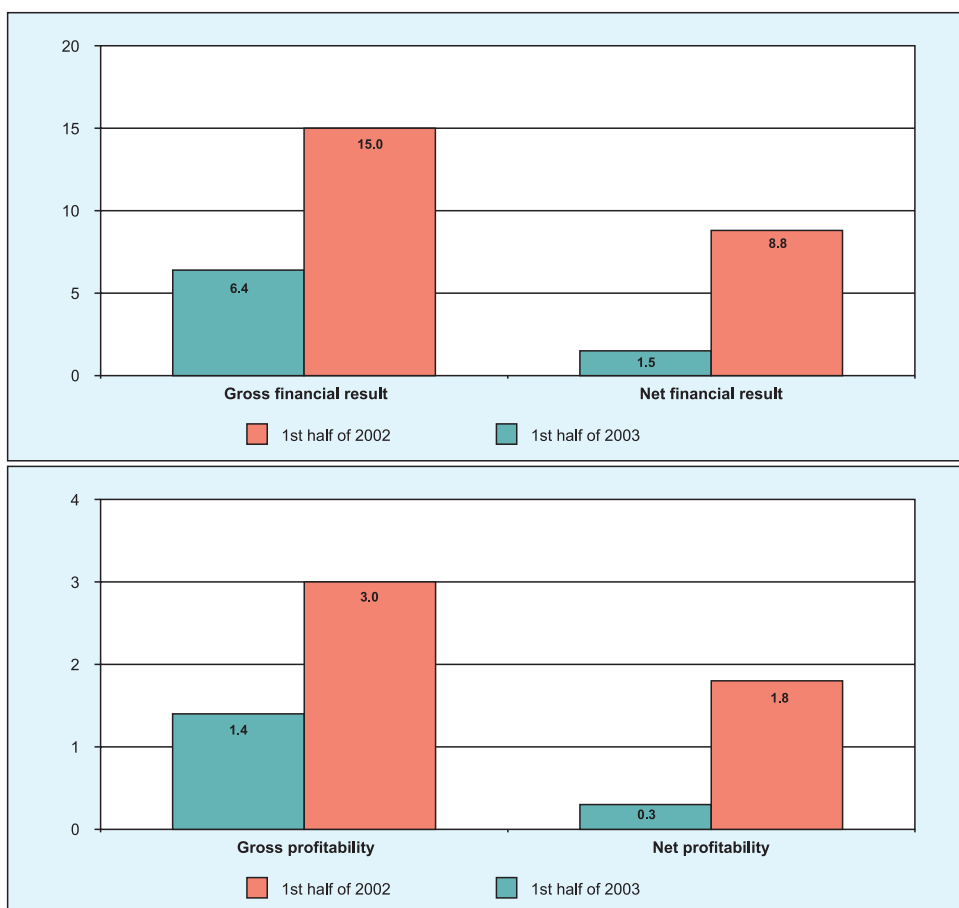
a – 2002 b – 2001 c = a – b		Total	Industry	Construction	Com- merce	Transport	From the "total":	
							private sector	public sector
Profitability of sales	a	3.3	4.1	0.2	1.1	6.3	4.0	0.8
	b	2.6	3.2	2.2	1.2	3.4	3.2	0.8
	c	0.7	0.9	- 2.0	- 0.1	2.9	0.8	0.0
Profitability gross	a	0.8	1.2	- 1.8	0.3	0.7	1.6	- 1.7
	b	0.7	0.6	- 0.1	0.7	- 0.3	1.2	- 0.8
	c	0.1	0.6	- 1.7	- 0.4	1.0	0.4	- 0.9
Profitability net	a	- 0.2	0.2	- 2.6	- 0.3	- 0.9	0.5	- 2.5
	b	- 0.3	- 0.3	- 1.2	0.2	- 1.9	0.3	- 1.7
	c	0.1	0.5	- 1.4	- 0.5	1.0	0.2	- 0.8

Source: Financial results of business entities, January – December 2001 and 2002, CSO; and own calculations.

### 13.1.4. Financial situation in the first half of 2003

In the first half of 2003, the financial results and profitability indices improved significantly. Revenues on overall activity reached 499,547 million PLN, and were higher by 10.9%, compared to the same period of the previous year. The costs of generating revenues (484,496 million PLN) rose by 9.0% – by 1.9 percentage point slower than the increase of revenues. This led to an increase of gross financial result by 136.7%. Net financial result rose by 469.6%.

**Chart 31. Gross and net financial results (in billion PLN), and gross and net profitability (%) in the first half of 2002 and 2003**



Source: own calculations on the basis of statistical reports F-01 for the 1st half of 2002 and 2003.

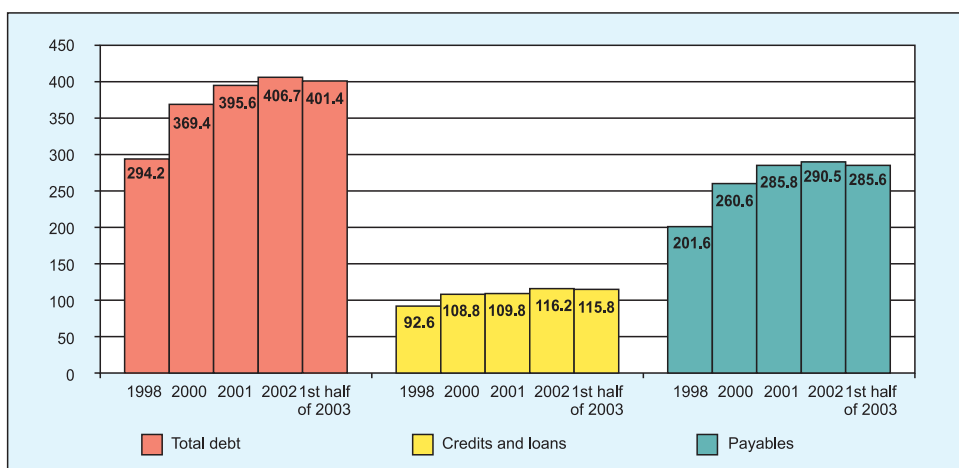
The growth of financial results was accompanied by an improvement of profitability: gross by 1.6 percentage point and net by 1.5 percentage point.

## 13.2. Debts of the enterprise sector

In 1998–2002, the debts of the enterprise sector increased two-fold, while the revenues on overall activity rose by 40% (calculated in current prices). Slower economic growth and the worse economic situation cause the revenues and financial results of many enterprises to deteriorate. They also reduce their ability to repay debts on time.

### 13.2.1. Volume, dynamics and structure of debts

**Chart 32. Level of debts of the enterprise sector in 1998–2002 and in the 1<sup>st</sup> half of 2003**



Source: F-01 reports, Central Statistical Office.

*Note: The debt of enterprises, calculated until 1998, covers entities with more than 50 workers for the sectors of mining and production activity; and 20 workers in the remaining sectors. For 1999–2001, it covers entities with more than 49 workers, across all sectors of activity.*

The high level of debts, amounting to more than 42% of the annual revenues, threatens the functioning of enterprises, limits their development opportunities and determines their low financial liquidity, especially in industry and internal trade. It

must be stressed that the dynamics of debt is gradually falling (from 139.7% in 1998 to 113.1% in 2000 and 102.8% in 2002). The reduced debt growth is due primarily to the decrease of inflation and investment outlays, which caused a decline of the demand for external financial resources, and allowed to increase the volume of own funds designated for current activity. The law on the restructuring of certain public liabilities of entrepreneurs played an important role for the reduction of debts – similarly as the law on public aid for entrepreneurs of particular importance for the labor market. These laws offered an opportunity to reduce debt resulting from overdue taxes, social security charges, premiums for the Labour Fund, State Fund for Rehabilitation of the Disabled and for the National Fund for the Protection of Natural Environment and Water Management.

In 2002, a reduction of debts, compared to 2001, was seen in the following sectors of activity: construction, financial services, real estate services and services for business, hotels and restaurants; and across all other service areas – both municipal and individual. An increase of debt – much smaller than in the previous years – was recorded in: transport, warehousing and communications; industry and internal trade.

**Table 49. Debt and its dynamics in the various sectors of enterprise activity**

Description	Debt		Dynamics (%)			
	2002		2001 = 100	2001	2000	1998
	million PLN	% share <sup>*)</sup>				
Enterprise sector of the whole economy, of this, the sectors of:	406,745.5	100.0	102.8	107.1	113.1	139.7
Industry	216,720.9	53.3	105.4	105.1	104.7	123.9
Internal trade and repairs	68,926.9	16.9	103.3	98.2	117.4	146.3
Transport, warehousing and communications	77,145.5	19.0	112.8	127.2	126.4	225.0
Construction	16,254.2	4.0	69.6	100.1	122.5	149.0
real estate services and services for businesses	22,837.4	5.6	93.0	105.0	144.0	116.1
Financial services	7,750.1	1.9	88.7	110.9	123.6	259.9
Hotels and restaurants	1,510.6	0.4	96.1	97.6	118.4	136.0
Other service activity, municipal, social and individual	2,707.8	0.7	93.1	84.2	134.0	163.3

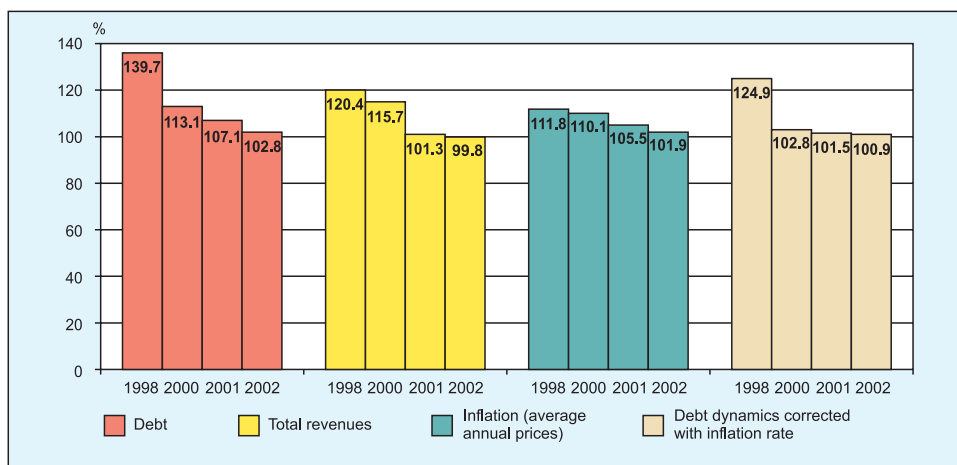
<sup>\*)</sup> % share of this sector in the total debt of the enterprises.

Source: Calculations of the Ministry of Economy, Labour and Social Policy on the basis of F-01 reports, CSO.

### 13.2.2. Dynamics of debt compared to growth of revenues and inflation

Despite a relatively low growth of debt in 2002, the revenues were slightly lower than in 2001. As a result, the ratio of debt to revenues deteriorated. The volume of revenues, necessary to repay debts, rose by 1.3 percentage point, to 42.3%.

**Chart 33. Dynamics of debt, revenues and inflation**



Source: Calculations of the Ministry of Economy, Labour and Social Policy on the basis of F-01 reports, CSO Statistical Bulletin of the Central Statistical Office.

### 13.2.3. Debt in the 1<sup>st</sup> half of 2003

At the end of 2003, the debt of the enterprise sector amounted to 401,424.3 million PLN, which was an increase of 2.5%, compared to last year. The debt dynamics in the 1<sup>st</sup> half of 2003 was lower by 5.3 percentage points than in the same period of 2002. The liabilities of enterprises tied to deliveries; purchased works and services; due taxes, customs duties and insurance premiums; loans; securities etc. rose (by 4.8%). This applied both to long-term liabilities (5.4%) and short-term ones (4.6%). The debt tied to credits and loans was reduced by 2.9%. The liabilities constituted 71.1% of total debt, and were the main source of financing for business entities. The debt of industrial enterprises rose by 0.6% in the 1<sup>st</sup> half of 2003, reaching the total value of 207,532.5 million PLN. The internal trade sector increased its debt by 4.8%, to 68,720.1 million PLN. The ratio of debt to revenues

improved. The dynamics of revenues (110.9%) was higher than dynamics of debts, and caused the reduction of revenues needed to repay debts – from 5.2 months in the 1<sup>st</sup> half of 2002 to 4.8 months in the 1<sup>st</sup> half of 2003.

During the 1<sup>st</sup> half of 2003, the situation in enterprise liquidity improved. The increase of current assets (by 6.3%), coupled with the growth of short-term liabilities (by 2.3%) resulted in the increase of own current assets (by 45.3%), and improved ability to pay short-term liabilities. This is confirmed by the significant improvement of the 1<sup>st</sup> degree liquidity ratio: from 17.9% in the 1<sup>st</sup> half of 2002 to 19.9% in the 1<sup>st</sup> half of 2003.

**Table 50. Financial liquidity ratios**

Description a – 1st half of 2002; b – 1st half of 2001		Financial liquidity ratios in %		
		1st degree	2nd degree	3rd degree
Whole sector of enterprises	a	19.9	80.5	114.5
	b	18.2	76.4	110.2
Industry	a	18.2	78.3	114.1
	b	14.9	71.5	107.2
Desired level of ratios according to minimum standards	x	20.0	100.0	150.0

*Source: Statistical Bulletin of the Central Statistical Office.*

## Chapter 14

# THE ECONOMY OF POLAND COMPARED WITH THE COUNTRIES OF THE EUROPEAN UNION AND OTHER COUNTRIES – CANDIDATES FOR THE EU. THE COMPETITIVENESS OF POLISH ECONOMY

### 14.1. Position of Poland's economy in comparison with the countries of the European Union in the context of the basic macroeconomic indices

#### 14.1.1. Gross Domestic product

In 2002, the European Union achieved a growth of GDP of 1.1%, which was by 0.5 percentage point less than in 2001. In 2003, according to the forecast of the European Commission, growth of GDP should amount to 1.3%. In comparison, the average growth rate of GDP in the European Union in 1996–2000 reached 2.6%. In 2000, it amounted to 3.5%. It is hoped that 2004 should be a year of economic revival – with GDP growth of 2.4%<sup>1)</sup>. However, this will be a growth rate lower than in the global economy. According to the report of the International Monetary Fund in September 2003, this year the global economy should achieve a 3.2% growth of GDP, and in 2004, 4.1%.

The preliminary data of the Eurostat suggest that economic growth in the countries of the EU remained on a low level during the 1<sup>st</sup> half of 2003. Without a decisive acceleration in the 2<sup>nd</sup> half, it will be impossible to achieve the level of growth planned for 2003. From Poland's perspective, the most important is the economic situation in those countries of the EU with whom it has the closest economic ties. Export to countries of the European Union constituted 68.7% of total Polish export in 2002. Import from the EU amounted to 61.% of total import.

In 2002, Poland achieved a growth of GDP amounting to 1.4% – which was 0.4% more than the growth rate of EU member countries. The growth was higher

<sup>1)</sup> Forecasts of the European Commission for the EU and Euro zone, Brussels, 8.04.2003.

with every quarter. This tendency remained in place also in 2003. It is assumed that in 2003 the growth of GDP should reach 3.5%; and 5.0% in the subsequent years.

**Table 51. Growth of GDP and industrial output in EU, Poland, USA and Japan**

Country	GDP growth in % during						Growth of industrial output			
	2000	2001	2002 est.	2003 forecast	1Q 2003	2Q 2003	2000	2001	2002	1Q 2003
Austria	3.5	0.7	1.0	1.2	1.0	-	8.8	0.8	0.1	-
Belgium	3.7	0.8	0.7	1.2	1.4	0.8	5.4	- 3.3	1.3	- 0.3
Denmark	2.8	1.4	1.6	1.5	1.4	- 0.5	6.2	1.7	0.0	1.7
Finland	5.5	0.6	1.6	2.2	1.9	0.8	11.9	- 0.8	1.7	1.5
France	3.8	1.8	1.2	1.1	1.0	0.0	3.6	1.1	-1.0	0.9
Greece	4.2	4.1	4.0	3.6	4.3	4.4	0.5	1.4	0.4	- 0.9
Spain	4.2	2.8	2.0	2.0	2.2	2.3	4.4	- 1.3	0.1	1.8
Ireland	10.0	5.7	6.0	3.3	0.5	-	15.4	10.2	7.8	3.6
Luxembourg	8.9	1.0	0.4	1.1	-	-	4.2	1.8	1.0	4.8
The Netherlands	3.3	1.3	0.3	0.5	0.1	- 0.9	4.0	1.4	- 2.1	0.5
Germany	2.9	0.6	0.2	0.4	0.1	- 0.2	6.2	0.5	- 1.1	1.9
Portugal	3.7	1.7	0.5	0.5	- 1.2	- 2.3	- 2.0	3.0	- 0.3	0.3
Sweden	4.4	1.1	1.9	1.4	1.9	1.5	6.8	- 1.1	- 0.7	- 1.5
Great Britain	3.1	2.1	1.8	2.2	2.1	1.8	1.7	- 2.3	- 3.5	- 0.6
Italy	3.1	1.8	0.4	1.0	0.7	0.3	4.1	- 1.2	- 1.3	- 0.4
European Union	3.5	1.6	1.1	1.3	1.0	0.5	4.6	0.0	- 1.0	0.8
Poland	4.0	1.1	1.4	3.5	2.2	3.8	6.7	0.6	1.4	4.4
Main partners of the EU										
USA	3.8	0.3	2.4	2.4	2.0	2.5	4.7	- 3.5	- 0.7	x
Japan	2.8	0.4	0.3	1.5	2.8	2.1	5.6	- 7.2	- 1.4	x

Source: 1. Information on the social and economic situation of the country for the 1<sup>st</sup> half of 2003, Warsaw, CSO, July 2003.

2. Forecasts of the European Commission for the EU and Euro zone, Brussels, 8.04.2003

3. Communiqué of Eurostat, 104.2003 dated 9.09.2003.



### 14.1.2. Industrial output

The significantly worse economic situation in the countries of the EU is also reflected in the decline in industrial output. In 2002, industrial output in the EU was lower by 1.0% compared to the previous year. Its decrease was registered in seven member countries of the EU. The growth of industrial output remains weak throughout 2003. During the 1<sup>st</sup> quarter, growth reached barely 0.8%. According to data of the Eurostat, in April 2003 industrial output rose by 0.4%, but the following months saw its decline: by 1.8% in May, and by 0.7% in June<sup>2)</sup>.

Meanwhile, in Poland industrial output rose by 1.4%. Each subsequent month of 2003 brought an increase of the growth rate. In the 1st quarter of 2003, the increase reached 4.4%. During the 1st half, it amounted to 6.7%<sup>3)</sup>.

### 14.1.3. Inflation

In 2002, the average inflation rate in the European Union dropped to 2.2%. The countries with the highest inflation levels were: Ireland with 4.7%; The Netherlands and Greece with 3.9%.

The lowest inflation was recorded in: Germany and Great Britain – 1.3%; and Belgium – 1.6%. In 2003, the level of inflation was lower. In June 2003, average inflation in the EU amounted to 1.8%. The highest inflation was registered in Ireland, with 3.8%; and the lowest in Germany, where it reached 0.9%.

In Poland the level of inflation was lowered in 2002. Average annual inflation reached 1.9%. Inflation rate at the end of the year amounted to 0.8%. The assumptions for 2003 state that inflation should reach 2.3%. In the 1<sup>st</sup> half of 2003, inflation reached barely 0.8%.

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<sup>2)</sup> Communiqué of Eurostat, 95/2003.

<sup>3)</sup> CSO, Data applies to enterprises employing more than 9 workers.

**Table 52. Inflation and unemployment rate in the countries of the EU in 2001–2003, and in I quarter of 2003**

Country	Inflation in %					Unemployment rate in %				
	2001	2002	2003 forecast	I quarter 2003	June 2003	2001	2002	2003 forecast	March 2003	June 2003
Austria	2.3	1.7	1.8	1.7	1.0	3.9	4.1	4.5	4.3	4.4
Belgium	2.4	1.6	1.4	1.6	1.5	6.9	7.6	7.8	7.8	8.0
Denmark	2.3	2.4	2.4	2.7	2.0	4.3	4.7	5.0	5.0	5.3
Finland	2.7	2.0	1.7	1.6	1.2	9.2	9.0	9.4	9.1	9.3
France	1.8	1.9	1.9	2.4	1.9	8.6	8.9	9.2	9.2	9.4
Greece	3.7	3.9	3.8	3.9	3.6	10.7	9.9	9.5	9.4	x
Spain	2.8	3.6	3.2	3.8	2.8	10.7	12.0	11.6	11.5	11.4
Ireland	4.0	4.7	4.2	5.0	3.8	4.1	4.4	5.6	4.5	4.7
Luxembourg	2.4	2.1	2.1	2.5	2.0	2.1	2.7	3.3	3.4	3.7
The Netherlands	5.1	3.9	2.7	2.6	2.5	2.4	3.1	4.2	3.8	4.2
Germany	2.1	1.3	1.3	1.2	0.9	7.9	8.5	8.9	9.3	9.4
Portugal	4.4	3.7	3.2	4.0	3.4	4.2	5.9	6.5	6.3	6.7
Sweden	2.7	2.0	2.5	3.0	2.0	4.9	5.1	5.3	5.3	5.4
Great Britain	1.2	1.3	1.9	3.1	1.1	5.1	5.1	5.1	5.0	x
Italy	2.3	2.6	2.4	2.7	2.9	9.1	9.0	9.1	8.8	x
EU -15	2.3	2.1	2.1	2.5	1.8	7.4	7.8	8.0	8.0	8.0
Euro Zone	2.4	2.2	2.1	2.4	2.0	8.1	8.5	8.8	8.8	8.9
<b>POLAND</b>	<b>3.6</b>	<b>0.8</b>	<b>2.3*</b>	<b>0.6</b>	<b>0.8</b>	<b>17.5</b>	<b>18.1</b>	<b>17.7-18.3</b>	<b>18.7</b>	<b>17.8</b>

\* Average annual inflation, budget law.

Source: 1) Communiqués of Eurostat: 100/2003, 82/2003, 56/2003.

2) forecasts of the European Commission for 2003–2004, Brussels, 8.04.2003.

#### 14.1.4. Unemployment

The significant decline in the rate of economic growth in the European Union caused an increase of the unemployment rate – from 7.4% in December 2001 to 7.8% in December 2002. Unemployment rate in countries which are the main economic partners of the EU also rose, reaching 6.0% in the USA and 5.5% in Japan. According to estimates of the Eurostat, there were 13.8 million unemployed people in the EU at the end of December 2002<sup>4)</sup>. As the rate of economic growth

<sup>4)</sup> Communiqué of Eurostat no. 12/2003 dated 3.02.2003.

remained low in 2003, the number of unemployed increased further. At the end of June 2003, the number of unemployed in the EU reached 14.4 million people<sup>5)</sup>.

Compared to countries of the EU, Poland has very high level of unemployment. In 2002, the unemployment rate reached 18.1% in Poland. The budget law contains the assumption that in 2003 unemployment should drop slightly. According to data of the CSO, in January the unemployment rate amounted to 18.7%, and in June, 17.8%.

### 14.1.5. Foreign trade

The year 2002 saw a significant slow-down of the dynamics of foreign trade among the countries of the European Union – both in terms of export and import. Export rose only by 0.5%, or by 5.4 billion €. As much as 8 countries of the EU registered a decline of their export. This includes: Great Britain, whose export fell by 3.3%, or by 10.1 billion €; Spain – 3.3% or 4.3 billion €; and France, whose result was worse by 3.0%, or by 10.8 billion €.

Poor economic situation caused also import levels to drop across all countries of the European Union – by 4.3%, or by 43.8 billion €. Among Poland's most important commercial partners, Germany reduced its imports by 20.0 billion € and France by 19.8 billion €.

A slight increase (by 0.5%) of export, coupled with reduction of import (by 4.3%), allowed the countries of the EU to achieve a positive trade balance in 2002, amounting to 6.5 billion €. This is a significant improvement, compared to 2001, when the deficit amounted to 42.6 billion €<sup>6)</sup>. Germany has achieved the largest positive trade balance, with 126.2 billion €. The largest deficit was found in Great Britain, where it amounted to 68.9 billion €.

Data for the first half of 2003 suggests that export continued to drop, and import remained on the level of 2002. Trade deficit amounted to 20.7 billion €, compared to 5.3 billion € during the same period of the previous year.

Poland, compared to other countries of the European Union, has achieved a high dynamics of export in 2002 (based on customs data). The value of export was higher than in 2002 by 4.9 billion USD, and reached a total of 41.0 billion USD<sup>7)</sup>. During the first half of the year, export measured in USD rose by 23.9%. Of

<sup>5)</sup> Communiqué of Eurostat, 90/2003.

<sup>6)</sup> Communiqué of Eurostat no. 37/2003 dated 24.03.2003.

<sup>7)</sup> Data of the Foreign Trade Research Institute (CIHZ).

**Table 53. Value of export and import in the countries of the EU and in Poland in 2001–2002, and during the 1<sup>st</sup> half of 2003**

Country	Export in billion €					Import in billion €				
	2001	2002	In-crease (%)	2003 r.		2001	2002	In-crease (%)	2003	
				1 <sup>st</sup> half	Increase				1 <sup>st</sup> half	Increase
Austria	79.0	83.0	5.1	42.0	2.2	83.3	82.6	- 0.8	42.0	2.4
Belgium	212.5	221.5	4.2	112.3	-1.1	199.5	204.5	2.5	102.4	- 2.3
Denmark	56.4	60.4	7.1	30.9	2.7	50.6	52.3	3.3	26.1	- 1.1
Finland	48.3	47.4	- 1.9	23.0	- 1.7	36.4	35.3	- 3.0		
France	361.1	350.3	- 3.0	168.3	- 4.6	366.9	347.1	- 5.4	171.4	- 3.2
Greece	11.4	x	x	x	x	31.5	x	x	x	x
Spain	130.3	126.0	- 3.3	68.4	7.2	172.7	163.6	- 5.3	88.2	10.1
Ireland	92.5	93.1	0.6	40.0	- 19.0	56.4	54.7	- 3.0	23.5	- 21.9
Luxembourg	10.9	10.8	- 0.9	5.8	1.8	13.8	13.9	0.7	6.9	- 1.4
The Netherlands	257.8	257.2	- 0.2	129.8	1.7	233.0	231.5	- 0.7	115.6	0.0
Germany	638.3	648.2	1.5	324.8	2.0	542.8	522.0	- 3.8	265.6	3.5
Portugal	27.3	27.1	- 0.7	13.7	- 2.8	44.1	40.7	- 7.3	19.5	- 7.1
Sweden	84.5	85.6	1.3	44.6	1.1	70.6	69.9	- 1.0	36.6	3.1
Great Britain	304.5	294.4	- 3.3	132.7	- 13.3	371.8	363.3	- 2.3	168.8	- 9.0
Italy	269.2	265.4	- 1.4	125.4	- 2.9	260.1	256.9	- 1.2	129.8	2.3
<b>EU -15</b>	<b>985.3</b>	<b>990.7</b>	<b>0.5</b>	<b>474.7</b>	<b>- 3.4</b>	<b>1,028.0</b>	<b>984.2</b>	<b>- 4.3</b>	<b>495.4</b>	<b>- 0.0</b>
<b>POLAND in billion €</b>	40.2	43.5	8.2	21.8	3.3	56.0	58.5	4.4	28.0	- 2.0
<b>POLAND in billion USD</b>	36.1	41.0	13.6	23.9	26.9	50.3	55.1	9.6	30.7	20.4

Source: 1. Communiqué of Eurostat, 37/2003 and 96/2003

2. data of the Foreign Trade Research Institute (CIHZ).

this total value, export to countries of the EU rose by 26.9%. Import rose by 20.4%, of which 19.3% constituted the increase of export to the European Union. Trade deficit rose by 125.4 million USD; and the negative balance of trade with the European Union was reduced by 486.2 million USD.

## 14.2. Position of Poland's economy in relation to CEFTA countries

### 14.2.1. Gross Domestic product

The significant decline in the rate of growth in the global economy, including the countries of the European Union, during the last two years, caused also a reduced rate of economic growth among CEFTA countries. However, it is still greater than in the countries of the European Union. In 2002, the largest growth of Gross Domestic Product - compared to the results achieved in 1996 - was achieved by: Hungary – 28.9%, Slovenia – 26.9% and Poland – 24.1%.

**Table 54. Growth of GDP and industrial output in CEFTA countries**

Country	GDP growth in %					Growth of industrial output in %						
	2000	2001	2002	2003 forecast*	I quarter 2003	2000	2001	2002	I quarter 2003	April 2003	May 2003	June 2003
1. Bulgaria	5.4	4.1	4.8	4.5	3.8	8.2	1.6	1.0	18.2	x	x	x
2. Czech Republic	3.3	3.1	2.0	2.8	2.2	5.4	6.5	4.8	6.3	6.1	6.8	2.1
3. Romania	2.1	5.7	4.9	4.9	4.4	7.1	8.4	6.0	1.1	x	x	x
4. Slovakia	2.2	3.3	4.4	3.7	4.1	8.4	7.2	6.5	10.9	3.0	3.5	8.6
5. Slovenia	4.6	2.9	3.2	3.4	2.3	6.2	2.9	2.4	0.8	- 5.2	- 1.3	- 2.7
6. Hungary	5.2	3.8	3.3	3.7	2.7	18.1	3.6	2.6	4.4	5.5	0.8	6.8
7. Poland	4.0	1.0	1.4	3.51	2.2	6.7	0.6	1.4	4.4	8.6	9.1	7.9

\* *Forecasts of the European Commission for candidate countries, Brussels, 8.04.2003*

1) *the budgetary law,*

2) *Communique of Eurostat, 107/2003*

Source: *Information on the social and economic situation of the country, 1<sup>st</sup> half 2003, Warsaw, CSO 2003.*

Among all countries of CEFTA, Poland had the lowest growth rate in 2002. During the 1<sup>st</sup> quarter of 2003, growth amounted to 2.2%, and during the 2<sup>nd</sup> quarter

to 3.8%. The budget law assumes that in 2003 the growth of GDP should reach 3.5%, and in 2004, 5.0%.

### 14.2.2. Industrial output

In 2002, all countries of the CEFTA achieved a significant growth of their industrial output. During the recent years, Hungary is the country with the highest growth of industrial output. It is closely tied to export. In 2002, export constituted 53.0% of the total industrial output. Compared to 1996, industrial output in Hungary rose by 73.3%. A significant growth of industrial output during that period was also recorded in Slovakia – increase of 31.0%; and Poland – 30.2%.

### 14.2.3. Inflation

The level of inflation varies across the CEFTA countries. The lowest inflation rate, for a number of years, has been registered in the Czech Republic. In the 1<sup>st</sup> quarter of 2003, the Czech Republic recorded deflation. The process of inflation reduction has been occurring in all CEFTA countries during the recent years.

**Table 55. The rates of inflation and unemployment in CEFTA countries in 2000–2003**

Country	Inflation in %						Unemployment rate in %					
	2000	2001	2002	2003* forecast	I quarter 2003	June 2003**	2000	2001	2002	2003* forecast	I quarter 2003	June 2003**
1. Bulgaria	10.3	7.4	5.8	4.5	0.6	x	16.9	19.7	17.8	16.5	15.6	x
2. Czech Republic	3.9	4.7	1.8	1.5	-0.4	0.0	8.8	8.1	7.3	7.0	7.6	6.9
3. Romania	45.7	34.5	22.5	16.0	16.6	x	7.1	6.6	8.4	8.7	8.1	x
4. Slovakia	12.0	7.3	3.3	8.8	7.6	8.7	18.6	19.2	18.5	18.2	18.4	16.4
5. Slovenia	8.9	8.4	7.5	6.0	6.4	6.2	7.0	6.4	6.4	6.3	5.8	5.7
6. Hungary	9.8	9.2	5.3	5.0	4.6	4.4	6.4	5.7	5.8	6.2	6.4	5.8
7. Poland	10.1	5.5	1.9	1.1	0.5	0.6	16.1	18.2	19.9	20.6	20.5	20.1

\* Forecasts of the European Commission for candidate countries, Brussels, 8.04.2003.

\*\* unemployment rate at end of June, communiqué of Eurostat no. 100/2003.

*Source: Information on the social and economic situation of the country, 1st half of 2003, Warsaw, CSO 2003.*

### 14.2.4. Unemployment

Unemployment remains one of the most difficult social and economic problems, despite the fact that some of the CEFTA countries managed to reduce its level in 2002. Unemployment has been felt the most in Slovakia and Romania. The lowest unemployment rates were registered in the Czech Republic, where it amounted to 7.3%; and in Hungary – 5.8%.

### 14.2.5. Foreign trade

Despite a significant slow-down of economic growth over the recent years – mainly among countries of the European Union, which are the largest commercial partner for CEFTA countries – these countries manage to maintain a high rate of growth in commercial turnover. This is illustrated by the data presented in the Table below.

**Table 56. Dynamics of export and import, expressed in USD, in 2000–2002 and in the 1<sup>st</sup> quarter of 2003**

Country	Dynamics of export in %				Dynamics of import in %			
	2000	2001	2002	I quarter 2003	2000	2001	2002	I quarter 2003
1. Bulgaria	120.4	106.8	109.1	142.4	118.0	111.6	107.5	139.5
2. Czech Republic	110.5	115.2	114.9	130.0	114.4	113.6	111.7	129.0
3. Romania	122.2	109.8	121.9	139.4	123.7	119.1	114.9	133.3
4. Slovakia	115.8	106.7	114.4	151.0	112.4	116.0	112.6	138.3
5. Slovenia	102.2	106.0	111.9	127.0	100.3	100.3	107.7	130.3
6. Hungary	112.3	108.6	112.6	116.3	114.5	105.0	111.7	122.1
7. POLAND	115.5	114.0	113.6	128.6	106.6	102.7	109.6	125.5

*Source: Information on the social and economic situation of the country, 1<sup>st</sup> half of 2003, Warsaw, CSO 2003.*

All CEFTA countries register a deficit in foreign trade. However, in most countries it is being gradually reduced.

**Table 57. Balance of commercial exchange in relation to GDP (%)**

Kraj	2001	2002	2003	2004
1. Bulgaria	- 11.7	-10.2	- 11.1	- 10.8
2. Czech Republic	- 5.5	- 3.5	- 4.0	- 2.7
3. Romania	- 7.4	- 5.7	- 5.8	- 5.5
4. Slovakia	- 10.8	- 9.0	- 7.9	- 7.1
5. Slovenia	- 3.3	- 1.0	- 1.3	- 1.2
6. Hungary	- 4.1	- 3.3	- 4.7	- 4.3
7. POLAND	- 6.6	- 5.6	- 6.2	- 6.4

Source: *Forecasts of the European Commission for candidate countries, Brussels, 8.04.2003.*

### 14.3. Competitiveness of the Polish economy

In the annual ranking of competitiveness, organised by the World Economic Forum, in 2001 Poland was ranked at 41<sup>st</sup> place among 75 countries, while a year earlier it was ranked 34<sup>th</sup>. The 2002 report of the World Economic Forum placed Poland on the 51<sup>st</sup> place among 80 ranked countries. The first country in this ranking are the United States of America. Taking into account only the 75 countries ranked in 2001, in 2002 Poland would have the 49<sup>th</sup> place. This means that the competitiveness of the Polish economy deteriorated further. The worst grade was given for the quality of operations of public institutions (61<sup>st</sup> place), only slightly better for macroeconomic environment (54<sup>th</sup> place), and relatively the best one for technology level (36<sup>th</sup> place).

**Competitiveness of the economy** – according to definition of the OECD – is the ability to generate, as a result of exposure to international competition, relatively high revenues on production factor; and ability to guarantee high employment level based on durable foundations<sup>8)</sup>.

In 1997, the European Commission proposed the so-called “**Competitiveness Pyramid**”<sup>9)</sup>. This pyramid is used to develop various models of competitiveness on the macro- and micro-economic levels.

<sup>8)</sup> Globalisation and Competitiveness Relevant Indicators, STI Working Paper, No 16, OECD, Paris 1966 r.

<sup>9)</sup> Benchmarking the competitiveness of the European industry, COM (96) 463 final, Brussels, 9.10.1996, published in: A. Hildebrandt, Competitiveness – Attempt at a definition and measure, the European Communities no. 3 (126) 2002, page 69.



The competitiveness pyramid presents a set of factors which determine competitiveness. The most important factor – *standard of living* – is placed at the top of the pyramid. Standard of living is considered to be the synthetic competitiveness indicator for any given economy (GDP per 1 inhabitant). This indicator is influenced by two factors: *employment rate and productivity*, which in turn are broken down into factors which characterize them. Employment is influenced by: the ratio of professional activity, creation of new jobs, labour market, demographic aspects of the society and intangible investments, defined as investment into human resources (increase of qualifications). Productivity is influenced primarily by innovations, outlays into research and development, investments into fixed assets and the financial situation (investment financing, taxes).

These tools, defining the competitiveness of economy, are used to achieve significant economic growth. As a result, this is meant to offer better quality of life for the society.

Therefore, the competitive position of a country with relation to global economy depends on the overall condition of its economy.

**The overall evaluation of the Polish economy in 2002** on the basis of macroeconomic indices was slightly better than in 2001. The dynamics of Gross Domestic Product and industrial output improved gradually. Inflation was significantly reduced. The foreign trade deficit dropped; and so did the current accounts imbalance, expressed as the ratio of current accounts deficit to the Gross Domestic Product.

These – still very moderate – symptoms of economic revival and improvement of macroeconomic situation in 2002 **did not translate into improved competitiveness of the Polish economy**, and into a better evaluation of Poland's competitive position, compared to the result achieved in the previous year.

### **Factors tied to employment and labour market<sup>10)</sup>**

A measure of population's involvement in the labour process is the **employment rate** – the share of employed in the overall number of population aged 15 and over. In Poland, this rate is much lower than in the member countries of the European Union, and decreases continuously, contrary to EU trend.

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<sup>10)</sup> Detailed data on the labour market is presented in the Report on the Status of the Labour Market 2003, which forms part of this year's collection of Reports.

**Table 58. Employment rate<sup>11)</sup> in selected countries, compared to EU average**

Description	1999	2000	2001
EU	62.1	63.1	X
Poland	57.5	55.1	53.8
Hungary	55.4	55.9	56.3
Czech Republic	65.7	64.9	65.0

Source: Eurostat.

The downward trend in the number of the **professionally active population**<sup>12)</sup> is a negative occurrence, which has serious economic and social consequences. This trend is illustrated in the value of professional activity ratio. It dropped from 55.8% in 2001 (4<sup>th</sup> quarter) to 55.0% in 2002 (4<sup>th</sup> quarter) and 54.7% in 2003 (2<sup>nd</sup> quarter).

The number and **structure of employed** in the national economy is changing. According to the data of BAEL, the population of employed was reduced by 3.4% in 2001, by 2.3% in 2002 and by 1.2% in the 2<sup>nd</sup> quarter of 2003. The largest number of persons is employed in the services sector (more than half of all employed). The share of employed in the industry and agriculture sectors is decreasing.

The **education structure** of the employed is constantly improving, which contributes to increase the quality of the labour factor. In 2001–2002, the share of employed with higher education rose from 15.6% to 17.1%; with high school and secondary vocational education from 29.8% to 29.9%; and with comprehensive high school education, from 6.8% to 7.1%. The share of employees with primary vocational education, or with junior high school, primary and incomplete primary education was reduced.

Due to demographic factors, large numbers of people born during the **demographic high** are now entering the labour market. The process of population

<sup>11)</sup> The employment rate is the proportion of employed to the total population (aged 15 and over).

<sup>12)</sup> Professionally active include employed persons (performing a salaried or income-bearing job); and the unemployed (persons aged 15–74 who meet two criteria: are not working, and for a 4-week period were actively seeking for a job or were ready to commence a job). The professional activity ratio is the relation of the professionally active to the total population (aged 15 and over).

ageing is now very intense, which applies also to the population of the employed. Growth of demand for employment is not accompanied with a growth in the number of offered jobs. This is tied not only to the restructuring processes, but also to the low rate of economic growth and the difficult situation of enterprises. Those who wish to remain in the market cut their costs, and employment is one of the areas which is subject to reduction. At the same time, the Polish employment system is still not flexible enough, despite the numerous changes introduced during the recent years. This contributes to increase the imbalance in the labor market. The number of young people without job is growing, and older persons of the productive age have increasing problem with finding employment. As a result, these conditions lead to a high level of unemployment, and to reduced effectiveness in the use of workforce.

At the end of 2002, the **rate of registered unemployment** amounted to 18.0%, compared to 17.5% in 2001 and 15.1% in 2000. Persons aged less than 24 years constituted about 28% of the total number of unemployed. In 2003, the rate of registered unemployment is being gradually reduced (in the first half, it reached 17.7%).

## Factors tied to productivity

The reduction, for the second subsequent year, of investment outlays (gross outlays into fixed assets) means a slow-down of the processes of restructuring and modernisation of production and organizational potential of enterprises.

The reduced investment activity was due to the very difficult financial situation of enterprises, and insufficient own resources, which still remain the main source of financing for business entities. Due to the very low profitability, many enterprises started to designate funds gained by depreciation of fixed assets to finance their current operations. The gross turnover profitability in the enterprise sector reached 0.8% in 2002, and 0.7% in 2001; and net turnover profitability -0.2% and -0.3%, respectively. During the 1st half of 2003, Foreign Direct Investments amounted to 2.5 billion USD. This was 0.7 billion USD less, compared to the same period of the previous year.

The reduced influx of **Foreign Direct Investment (FDI)** is a threat for the process of economy modernisation. From the standpoint of economy's competitiveness, the level of FDI is very important. FDI serve not only to improve the ability to finance

investment, but are also tied to technology transfer and improved access to outlet markets. In 2002, Poland received (according to the data of the Polish Agency for Foreign Investment) 6.1 billion USD, compared to 7.1 billion in 2001 and 10.1 billion in the record year 2000.

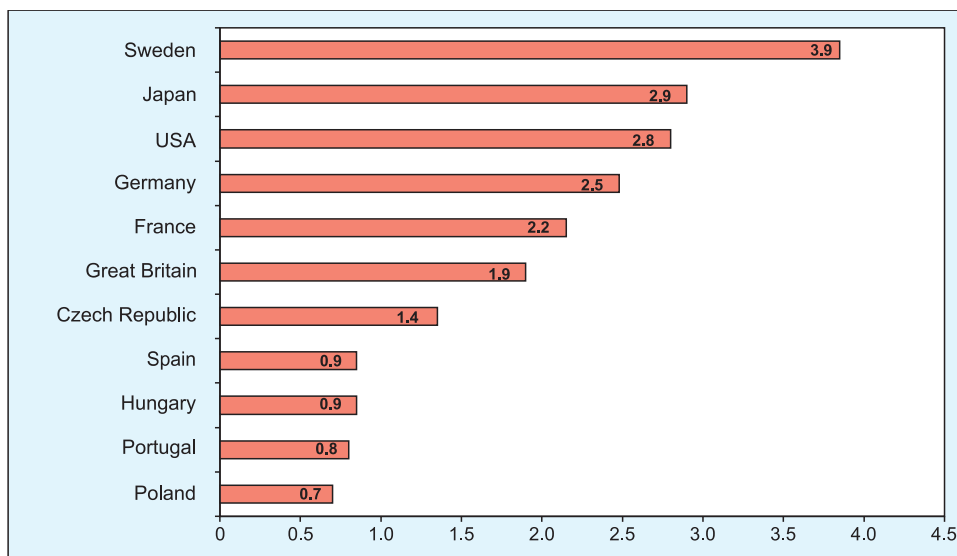
**Table 59. Foreign direct investment in the countries of Central and Eastern Europe**

Description	Poland	Czech Republic	Hungary	Slovakia
Cumulative influx of FDI (billion USD, 2001)	42.4	26.8	23.6	6.1
Foreign investment in relation to GDP (% 2000)	21.3	42.6	43.4	24.2
Foreign investment per 1 inhabitant (USD)	1 230	2 750	2 430	.

*Source: UNCTAD, World Investment Report, 2002.*

**The level of innovation** in the Polish economy is low. It places Polish enterprises in a worse position during competition in the market. These enterprises do not fulfill the conditions necessary to obtain a competitive edge, which is gained by manufacturing products with the use of modern technologies; and by manufacturing products of high quality, confirmed with the relevant certificates. Of the 3.4 million firms registered in Poland, only 2,854 obtained the ISO 9000 or 14000 certificates (in Germany, about 45 thousand, and in Great Britain about 70 thousand at the end of 2001). The innovation ratio in Poland (the share of innovative companies in the overall number of industrial enterprises) dropped from 37.6% in the years 1994-1996 to barely 16.9% in 1998-2000.

The innovative abilities of the economy are assessed on the ratio of **outlays for research and development activity** to the Gross Domestic Product. In Poland, this rate is much lower than the average of the member countries of the European Union. The structure of outlays into research and development activity is also negative from the perspective of the economy: the share of primary research is growing, while the share of applied research and development works decreases. The low share of development works in the outlays into R&D proves weak involvement of enterprises into R&D.

**Chart 34. Outlays into R&D activity in selected countries in 2000<sup>13)</sup> (as % of GDP)**

Source: Ministry of Science and Information Technology.

The consequence of the insufficient cooperation between science and economy is the level of knowledge-based economy. It is assessed by the OECD on the basis of a multi-factor synthetic index. This index for Poland is set at 6 points (23rd place), while Hungary has 31 points (6th place).

**Gross Domestic Product** per capita, which serves as a measure of the country's wealth and of labor productivity, reached in Poland 9,900 USD in 2001 (measured according to purchasing power parity). This was slightly above 40% of the average level in the countries of the European Union. This result is lower also than the results achieved by other countries – candidates to the European Union. This level determines Poland's global competitive position; and at the same time defines the distance separating its economy from countries of the EU and other countries aspiring to membership in the EU<sup>14)</sup>.

<sup>13)</sup> Data on Portugal and Sweden refer to 1999, and on Poland, to 2001.

<sup>14)</sup> Presentation of data on GDP compared to other countries is to be found in Chapter 1.

### 14.3.1. Costs of labour and labour productivity

The assessment of costs of labour in Poland, based on national accounts covering full costs of labour in enterprises of all sizes (small, medium-sized and large ones), shows that the changes in the global costs of labor varied significantly in the longer timeframe, in 1995–2002. In 1995–1998 the share of labour costs in the GDP (in current prices) had been on the rise (from 42.9% in 1995 to 45.2% in 1998). In 1999–2000 this share was reduced – according to the estimates of the Ministry of Economy, Labour and Social Policy – to 42.8% in 2002 (see the data in Table 60).

**Table 60. Share of employment-related costs in the GDP and gross value added in 1995–2002**

in %

Description	1995	1996	1997	1998	1999	2000		2001	2002 <sup>x)</sup>
						A	B		
1. Share of employment-related costs in GDP (current prices)	42.9	4.3	45.1	45.2	44.9	43.7	42.6	43.3	42.8
2. Share of employment-related costs in gross value added in the economy (current prices)	49.3	51.0	51.6	51.6	51.6	49.8	48.6	49.4	49.0
of this: in industry	55.6	60.6	61.2	63.0	62.3	60.5	60.6	55.8	55.9
3. Share of industry in the creation of gross value added in the economy – in current prices	31.7	30.1	29.3	27.6	27.1	26.5	25.6	24.0	23.8
– in fixed prices 1995	31.7	32.4	33.5	33.4	33.2	34.1	25.7	33.6	33.5

<sup>x)</sup> preliminary data – not final.

Year 2000 is presented in two options: A – compared to the previous years and B – compared to the following years.

*Source: National accounts according to institutional sectors and sub-sectors, 1995–2000, CSO, Warsaw 2001; and 2000–2001, CSO, Warsaw 2003.*

*Poland's Statistical Yearbook 2002, CSO, Warsaw 2002.*

*Statistical Yearbook of Industry 2002, CSO, Warsaw 2002.*

*Statistical Bulletin of the CSO no 5/2003, and own calculations.*

The ratio of employment-related costs to the GDP is much lower in Poland than in most countries of the European Union. In 2000, a higher share of labor costs in the GDP was registered in 12 of the 15 EU countries. In an extreme case, the difference between the share of labour costs in GDP during the same year amounted to 15.3 percentage points – in Poland the share amounted to 42.6%, and in Sweden, 57.9%. Only three member countries of the European Union have a lower ratio of labor costs to the GDP than Poland: Greece with 32.5%, Italy with 40.5% and Ireland with 40.4%<sup>15)</sup>.

**The share of employment-related costs in gross value added in the economy** rose from 49.3% in 1995 to 51.6% in 1997–1999. It fell during the next years, to reach 49.0% in 2002.

The reduction of the share of labour costs in the GDP and gross value added in the economy, and in the industry sector, in 1999–2002 was due to the decrease in the total number of employed, and to the lower dynamics of average nominal labor costs per 1 employee.

The average nominal cost of labour of 1 employee **in the national economy** rose in 1999–2002 by 40.2% (from 2,115 PLN in 1998 to about 3,092 PLN in 2002). In 1995–1998 the growth of this cost was higher, and amounted to 140.5%.

The structure of labour costs was also changed in the breakdown of **salary costs** (remuneration) and **non-salary costs**, covering social insurance contributions paid by employers, and other employment-related costs. In 1995–1998 the share of salary costs in total labour costs in the national economy reached the level of about 67–68%; and the non-salary costs amounted to 22–23% (see the data in the Table below).

From 1999, after the change in the system for payment of social insurance contributions, the structure of labour costs underwent a serious change. The 50% of social insurance contributions, paid by the employees, was added to the employees' gross salary.

As a result, the share of social insurance costs paid by the employers was reduced; whereas the share of salaries rose. In 2001, the share of salary costs in total labour costs reached 80%; and non-salary costs – 20%.

<sup>15)</sup> See Poland's Statistical Yearbook 2002, p. 737.

**Table 61. The structure of global employment-related costs in the Polish economy in 1995–2001**

Description	1995	1996	1997	1998	1999	2000		2001
						A	B	
Costs tied to overall employment, of this:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Salaries	67.5	67.6	67.2	67.7	83.2	79.9	79.5	80.0
Social insurance contributions paid by employers	28.2	27.8	27.6	27.4	14.6	14.8	14.8	15.3
Other costs tied to employment	4.3	4.6	5.2	4.9	5.2	5.3	5.7	4.7

*Note:* Data for 1999–2001 is not fully comparable with the data for 1995–1998, because since 1999, 50% of the social insurance premiums is paid by the employees. The year 2000 is presented in two options: A – compared to the previous years and B – compared to 2001, as in 2001 many important methodology changes were introduced into the national accounts (see Poland's Statistical Yearbook 2002, p. 538–539).

*Source:* National accounts according to institutional sectors and sub-sectors, 1995–2000, CSO, Warsaw, June 2002; and 2000–2001, CSO, Warsaw June 2003.

The effective increase of the average monthly nominal cost of labour per 1 employed in the **Polish economy**, calculated with the use of the deflator of prices of gross value added, ranged from 7.7% in 1996 to 2.4% in 2002. The average annual rate of this increase in the years 1995–2002 amounted to 4.6%. It was slightly higher in 1995–1998 (4.8%) than in 1999–2002 (4.4%).

When the average inflation rate is used as the deflator, the effective increase of the cost of labour per 1 employee ranges from 7.1% in 1996 to 1.4% in 2000. The average annual rate of this increase in 1995–2002 amounts to 4.2%. It was lower in 1999–2002 (3.3%) than in 1995–1998 (5.2%).

The effective unit labor costs **in the industry sector** in 1995–2002, calculated with the deflators of prices of gross value added and average annual inflation, rose at a much slower rate than within the whole economy. A faster increase was seen when the prices of sold industrial output were used as the deflator. This resulted from the fact that in 1995–2002 the prices of sold industrial output rose much slower than prices of gross value added, or the consumer price index (see the data in the Table below).



**Table 62. Changes in the unit labour costs compared to the higher labour productivity in Polish economy, including industry, in 1995–2002**

Description	1995	1996	1997	1998	1999	2000	2001	2002 <sup>a)</sup>	Average annual growth rate in:		
									1995–1998	1999–2002	1995–2002
1	2	3	4	5	6	7	8	9	10	11	12
1. Average monthly nominal costs of labour per 1 employee in the economy in PLN (previous year = 100)	1,177 133.9	1,511 128.4	1,822 120.6	2,115 116.0	2,390 113.0	2,670 111.7	2,987 110.7	3,092 103.5	x 24.4	x 9.7	x 16.9
1.1. Of this: in industry (in zloty) (previous year = 100)	1,137 130.8	1,488 130.9	1,797 120.7	2,081 115.8	2,401 115.4	2,724 113.4	2,603 95.1	2,732 104.9	x 24.4	x 6.9	x 15.3
2. Deflators:											
2.1. Prices of GDP	127.9	118.8	114.0	111.8	106.7	107.1	104.2	101.5	17.9	4.9	11.2
2.2. Prices of gross value added	129.3	119.2	115.2	112.4	106.5	108.4	104.3	101.1	18.8	5.0	11.7
2.3. Average annual inflation (Consumer Price Index)	127.8	119.9	114.9	111.9	107.3	110.1	105.5	101.9	18.5	6.2	12.1
2.4. Prices of sold industrial output (Producer Price Index)	125.4	112.4	112.2	107.3	105.7	107.8	101.6	101.0	14.1	4.0	8.9
3. Dynamics of effective unit labour costs in the economy, calculated with the use of:											
3.1. Deflator of the prices of gross value added	103.6	107.7	104.7	103.2	106.1	103.0	106.1	102.4	4.8	4.4	4.6
3.2. Deflator of average annual inflation	104.8	107.1	105.0	103.8	105.3	101.4	104.9	101.6	5.2	3.3	4.2
4. Dynamics of effective unit labour costs in the industry, calculated with the use of:											
4.1. Deflator of the prices of gross value added	101.2	109.8	104.8	103.0	108.0	104.6	91.2	103.8	4.6	1.7	3.1
4.2. Deflator of average annual inflation	102.3	109.2	105.0	103.6	107.5	103.6	90.1	102.9	5.0	0.8	2.9
4.3. Deflator of the prices of gross value added	104.3	116.5	107.6	107.9	109.2	105.2	93.7	103.9	9.0	2.8	5.9

cont. ➡

Description	1995	1996	1997	1998	1999	2000	2001	2002 <sup>x)</sup>	Average annual growth rate in:		
									1995–1998	1999–2002	1995–2002
1	2	3	4	5	6	7	8	9	10	11	12
5. Dynamics of labour effectiveness, calculated with gross value added in 1995 prices per 1 employee											
5.1. In the national economy	103.8	104.0	103.4	103.5	106.1	106.8	104.5	102.9	3.7	5.0	4.4
5.2. In industry	107.2	108.4	110.4	106.0	110.9	113.1	104.5	104.1	8.0	8.1	8.0
6. Difference (in percentage points) between the growth rate of labour productivity and unit labour costs in the economy, calculated with the use of:											
6.1. Deflator of the prices of gross value added	0.2	-3.7	-1.3	0.3	0	3.8	-1.6	0.5	-1.1	0.6	-0.2
6.2. Deflator of average annual inflation	-0.1	-3.1	-1.6	-0.3	0.8	5.4	-0.4	1.3	-1.5	1.4	0.2
7. Difference (in percentage points) between the growth rate of labour productivity and unit labour costs in the industry, calculated with the use of:											
7.1. Deflator of the prices of gross value added	6.0	-1.4	5.6	3.0	2.9	8.5	13.3	0.3	3.4	6.4	4.9
7.2. Deflator of average annual inflation	4.9	-0.8	5.4	2.4	3.4	10.4	14.4	1.2	3.0	7.3	5.1
7.3. Deflator of the prices of sold industrial output	2.9	-8.1	2.8	-1.9	1.7	7.9	10.9	0.2	-1.0	5.3	2.1

<sup>x)</sup> preliminary data of the CSO and estimates of the Ministry of Economy, Labour and Social Policy

Source: Own calculations on the basis of data:

*National accounts according to institutional sectors and sub-sectors, 1995–2000 and 2000–2001, CSO.*

*Poland's Statistical Yearbook 2002, CSO, Warsaw 2002.*

*Statistical Yearbook of Industry 2001 and 2002, CSO, Warsaw 2002.*

*Statistical Bulletin of the Central Statistical Office, no. 5/2003.*

From the perspective of competitiveness of economy – and especially of industry, which determines the Polish export – **it is important to evaluate not only the trends in the changes of labour costs, but also the labor effectiveness.** It is desirable for the labour effectiveness to grow quicker than the effective labour costs.

The analysis of the increase of the effective labour costs and of labour effectiveness in the Polish economy in 1995–2002 has shown that the tendencies of changes in these ratios have been unfavourable. During the whole period, the average growth rate of labour costs was faster than growth of labour effectiveness. This was due mainly to the lower increase of labour productivity in 1995–1996, when the average annual growth of this ratio (measured in gross value added in 1995 prices per 1 employed) reached 3.7%, and the effective labour costs rose at 4.8%–5.2% (depending on the price deflator applied).

In the period 1999–2002, the difference between the growth rate of labour productivity and the labour costs was positive (see the data in Table 63).

**Table 63. Average annual growth of labour productivity and labour costs in the countries of the EU, Poland, USA and Japan in 1995–2002**

Countries <sup>1)</sup>	Average annual growth rate in: 1995–2002 (%)		The difference between the growth ratios of labour costs and labour productivity in percentage points
	labour productivity <sup>2)</sup>	effective labour costs <sup>3)</sup>	
1. Ireland	3.9	-2.7	6.6
2. Greece	3.0	-0.4	3.4
3. Finland	1.8	-0.7	2.5
4. Austria	1.7	-0.7	2.4
5. Italy	0.9	-1.2	2.1
6. Portugal	1.9	-0.1	2.0
7. France	1.3	-0.1	1.4
8. Sweden	2.0	0.7	1.4
9. Great Britain	1.5	0.1	1.4
10. Spain	0.7	-0.7	1.4
11. Germany	1.0	-0.3	1.3

cont. ➡

Countries <sup>1)</sup>	Average annual growth rate in: 1995–2002 (%)		The difference between the growth ratios of labour costs and labour productivity in percentage points
	labour productivity <sup>2)</sup>	effective labour costs <sup>3)</sup>	
12. Denmark	1.4	0.2	1.2
13. The Netherlands	0.8	-0.2	1.0
14. Belgium	0.7	-0.2	0.9
15. Luxembourg	0.5	-0.1	0.6
<b>European Union</b>	<b>1.2</b>	<b>-0.3</b>	<b>1.5</b>
<b>Poland</b>	<b>4.6</b>	<b>5.3</b>	<b>-0.7</b>
United States	1.7	-0.2	1.9
Japan	1.4	-0.3	1.7

Notes: 1) the EU countries are arranged according to the order of differences between the growth of labor effectiveness and labour costs.

2) labor productivity measured in GDP in market prices of 1995 per 1 employee.

3) nominal unit labour cost, deflated with the growth ratio of GDP prices.

Source: Own calculations on the basis of data:

EC economic data pocket book no. 5/ 2003 Eurostat DG ECFIN, Luxembourg 2003.

POLAND: National accounts according to institutional sectors and sub-sectors, 1995–2000, CSO; and current data on economy in 2002, CSO.

Contrary to the whole economy, the **industry sector** achieved much better relations of the growth of labour productivity and labour costs, calculated with the price deflators of gross value added and average annual inflation.

In comparison to countries of the European Union and to the United States, the relations of the growth of labour productivity and labour costs in Poland (calculated according to Eurostat methodology) turn out to be negative.

## Chapter 15

# THE PROCESSES OF INTEGRATION WITH THE EUROPEAN UNION

### 15.1. Harmonisation of business laws

On 16<sup>th</sup> April 2003, at the Acropolis in Athens, the Accession Treaty was signed by the 15 current member countries of the European Union, and ten newly joining members: Poland, Cyprus the Czech Republic, Estonia, Lithuania, Latvia, Malta, Slovakia, Slovenia and Hungary. This document, consisting of almost 6,000 pages, covers issues related to all candidate countries and sets forth the conditions for EU accession. It is the most important international treaty in the post-war history of Poland.

On 23<sup>rd</sup> July 2003, the President of the Republic of Poland ratified the Accession Treaty regarding the accession of 10 new countries to the European Union. The President had been authorised to ratify the Treaty on the basis of the will of the nation, expressed in the European Referendum, held on 7<sup>th</sup> and 8<sup>th</sup> June 2003. 77.45% of all voters voted in favor of Poland's accession to the European Union. 58.85% of eligible voters participated in the referendum.

For Poland, the process of European integration commenced in 1991, with the signing of the European Treaty which established an association between the Republic of Poland and the European Community and its Member Countries. This set the basic guidelines for the systemic transformation process.

The process of Poland's integration with the European Union meant establishing closer ties in all areas of the economy; as well as the adaptation of the Polish legal and institutional system to the mechanisms adopted by the EU. On 8<sup>th</sup> April 1994 the Government of Poland submitted a formal application on the accession to the European Union. This document confirmed Polish aspirations to become a member of the European Union. The European Treaty was not a guarantee of membership in the European Union; and did not prepare Poland sufficiently to achieve this status.

In January 1997 the Government of Poland adopted the document "NATIONAL INTEGRATION STRATEGY" (NIS) which set forth the integration-related

undertakings, and defined the tasks which Poland must complete during the period preceding the full membership. The NIS is based on the assumption that Poland's membership in the EU will include integration in all areas, would accelerate the economic development and growth of new jobs, while the country strives to gradually meet the criteria of the Economic and Currency Union. In order to execute the tasks included under the Strategy, a schedule of actions was adopted for the implementation of the *acquis communautaire*. The NIS defined the tasks for the individual levels and bodies of state administration.

The goals and tasks of the NIS are being performed under the National Programme of Preparation for Membership in the EU.

On 18<sup>th</sup> March 2003, the Council of Minister approved the 5th subsequent *Report on the implementation in 2001 of the National Programme of Preparation for Membership in the EU (NPPC)*. Implementation of the priorities included under the National Programme was monitored by the Committee for European Integration, from the perspective of progress and threats for the adopted schedule of actions. This enabled the evaluation of progress in the subsequent Periodic Reports, prepared by the European Commission. The most recent one, published by the Commission on 9<sup>th</sup> October 2002, stated that Poland met the political, institutional, legal and market criteria for EU membership; and that before the date of full accession it would be able to face the competitive pressure of the EU. This allowed the European Commission to recommend the member countries of the European Union to close the negotiations with Poland at the end of 2002.

The general assessment contained in the Report leads to the conclusion that in 2002 Poland intensified the adaptive activities. Work on adapting the Polish law to the law of the Communities was accelerated. However, there still are some delays. The areas which include the largest delays and gaps are: the protection of natural environment, agriculture and free movement of goods especially in terms of food security; and the occupational safety and labour hygiene.

Legal foundations for the creation of some institutions necessary to apply and execute the law were built. Some new institutions were created, and the competencies of already existing institutions have been extended with the scope resulting from the *acquis communautaire*.

Particularly intensive actions were undertaken in the area of preparations to absorb community funds, both during the pre-membership stage and post-accession. The National Development Plan, adopted in January 2003, is a medium-

term strategic planning document. It is the first document which unifies – on a country level – the horizontal, sectoral and regional intervention activities of the state. It designates the directions for Poland's economic development during the first post-accession years, in order to provide conditions supporting long-term, sustainable economic development and the improvement of standard of living for the country's inhabitants.

The most important areas from the standpoint of enterprise development are three operational programmes, regarding the increase of the economy's competitiveness, development of human resources and regional development.

The measures proposed under these programmes are meant to offer the entrepreneurs an integrated aid package, consisting of consulting and training services, and investment grants.

The implementation of planned measures would allow the enterprises to increase their investment level, improve productivity, develop export and international cooperation, increase employment and meet EU standards regarding the protection of natural environment. It would also help them to better profit from the opportunities offered by the Single European Market, and to adapt to operating in a knowledge-based economy.

Aside from preparing the *National Development Plan* and operational programmes for individual sectors, the government worked also on the preparation of personnel and institutions to manage and monitor the use of EU funds. It intensified adaptive activities in the area of food security, evaluation of goods compliance with security requirements; protection of natural environment, and agriculture (especially the IACS and LPIS systems, which are necessary to profit from subsidies and other instruments of the agricultural policy).

The government, in an attempt to guarantee the continuity of adaptive works, tied to the final edition of the NPPC, adopted a special resolution on this issue (on 29<sup>th</sup> October 2002). On 20<sup>th</sup> November 2002, the government approved the *Programme for Poland's Preparation to Membership in the European Union*, which includes legislative and non-legislative tasks (regarding primarily institutions).

### **15.1.1. Adaptation in the field of business law**

Together with the transformation of the economy, and catching up with economic delays, the government is implementing adaptive works regarding the business

laws. The most important actions applied to changes in the area of research and certification; overall business activity and rules for granting public aid.

With relation to the so-called New Approach, under the Protocol on European Agreement on Conformity Assessment, Poland declared that it would gradually adapt its current system of research and certification to the EU system.

In the course of implementing the obligations contained in the Protocol, the government has undertaken a number of activities. The most important one was the adoption of law dated 28<sup>th</sup> April 2000 on the conformity assessment system, accreditation and amendment to other laws, which came into force on 1<sup>st</sup> January 2001.

Another important legislation is the law dated 19<sup>th</sup> November 1999, the Business Activity Law, which came into force on 1<sup>st</sup> January 2001. This law contains regulations on the equal status of foreign and domestic entrepreneurs; and regulates the commencement and management of business activity by foreign entrepreneurs in the form of representative offices and branches.

On the basis of mutuality – if international treaties, ratified by Poland, do not provide otherwise – foreign entities and individuals can commerce and perform business activity in Poland according to the same rules, as entrepreneurs with permanent residence or seat in Poland.

Another important legislation is the law dated 30<sup>th</sup> June 2000, on the conditions for admissibility and monitoring of public aid for entrepreneurs, which came into force on 1<sup>st</sup> January 2001.

This law assumes that the state intervention in the national economy will decrease. The transfer of public aid to entrepreneurs and public enterprises under conditions more favorable than market conditions is, as a rule, inadmissible. Exceptions from this rule are defined in this law. The law allows certain cases of aid, such as aid for specific regions or sectors of the industry; and the so-called horizontal aid.

### **15.1.2. Execution of obligations resulting from negotiations**

The European Commission divided the whole scope of negotiations into 31 negotiations chapters. With the exception of the chapters "Institutions" and "Others", in the remaining 29 chapters a screening process has been carried out. It was a review of Polish legal system from the standpoint of its compliance with the



regulations used in the EU. As a result of the legislative review, a list of all EU legislation was drawn. The legislation was further qualified as: problem-free (1 category); regulations posing technical problems (2 category) and regulations which had to be negotiated (3 category). The law review determined the necessary degree of adaptation of the Polish law the EU legislation.

The Ministry of Economy, Labour and Social Policy was responsible for negotiations in twelve chapters: movement of goods, free flow of persons, small and medium-sized enterprises, external relations, industrial policy, energy, freedom of provision of services, protection of health and of the consumers, competition policy, the law of commercial companies, regional policy and instruments of structural policy, as well as employment social policy.

Accession negotiations with the EU began on 31<sup>st</sup> March 1998, and were completed during the Copenhagen Summit, on 13<sup>th</sup> December 2002.

## **15.2. Implementation of the strategic areas of actions regarding the processes of integration in the economy – priorities of the National Programme of Preparation for Membership in the EU (NPPC)**

### **15.2.1. Restructuring of heavy industry (hard coal mining and the iron and steel industry)**

#### ***Restructuring of the hard coal mining sector***

In 2002, Poland continued the implementation of the Government program “Reform of the hard coal mining sector in Poland in 1998–2002”.

As a result of programme implementation, employment was reduced by more than 120 thousand workers – by 42.2%. The unproductive capacities of mines were reduced by 34.52 million tons/year, mainly through complete liquidation of 13 mines, and partial closure of 10 mines. The financial problems of the sector remain unsolved. Quite to the contrary – it turned out that the debts of the coal mining sector – both towards the state and private entities – reached 22 billion PLN at the end of 2002.

The sector failed to achieve a satisfactory financial result. In 2002, the hard coal mining sector obtained a negative net financial result of -608.9 million PLN. Compared to 2001, this result was worse by 790.8 million PLN.

Under such circumstances, the government commenced work on the program for reform of the hard coal mining sector in 2003–2006. As a result, on 28th January this year, the Council of Ministers adopted:

- “The programme to restructure hard coal mining in Poland in 2003–2006, with the use of anti-crisis legislation and initiation of the privatisation of some mines”,
- “Assumptions for the programme to alleviate the outcome of restructuring employment in the hard coal mining sector for the Silesia region”.

The restructuring of hard coal mining is certainly a very difficult task for the government and for the regional authorities. However, further restructuring activities are absolutely indispensable. There is still an over-supply of coal on the market. It is necessary to adapt the production capacities to the needs of the market, and employment level to these capacities. Financial restructuring and improvement of financial liquidity of this sector are very important tasks.

### ***Restructuring of the steel industry***

On 30<sup>th</sup> June 1998, the Council of Minister adopted the “Programme for restructuring the steel sector in Poland”. This programme was developed under close cooperation with the European Commission, and was given positive evaluation by member countries of the European Union.

The changing market conditions worsened the standing of steelworks undergoing restructuring processes. They caused the need to modify the restructuring activities, to take into account the current sector situation. This was reflected in the document adopted by the Council of Ministers in March 2002, “Programme for restructuring the steel sector in Poland – Update 2002”. The key element of transformation of the steel sector became the creation of the “Polskie Huty Stali S.A.”, a holding of state-controlled steelworks; and the acceleration of activities tied to the consolidation and privatisation of this sector. This programme was modified as a result of negotiations with the European Commission.

In line with the conditions defined in the Joint Position of the EU, the final government programme for restructuring the Polish steel sector was prepared. It is closely tied to the amended programmes for individual steelworks, and to the business plan of PHS S.A.

This document, “Restructuring and development of the steel sector in Poland until 2006”, adopted by the Council of Ministers on 10<sup>th</sup> January 2003 and amended

on 25<sup>th</sup> March 2003, defines the detailed plans for the restructuring of the Polish steel industry until 2006.

Implementation of this plan should allow the steelworks to recover economic effectiveness and profitability, and prepare them for effective competition upon accession to the European Union.

### **15.2.2. Adaptation of laws and the restructuring of the power sector (electric energy, petroleum and gas mining, the petroleum sector)**

#### ***Adaptation of the laws***

A condition for Poland's accession in the area of energy is the adaptation of the Polish energy laws to the current European regulations.

For this purpose, the Energy Law was amended on 24<sup>th</sup> July 2002. The modified Energy Law is adapted to the requirements contained in new EU legislation, and introduces certain systemic solutions for the liberalization of the energy market.

The amendment implemented into the Polish legal system the regulations contained in EC Directives, regarding the uniform rules for the internal markets of electric energy and natural gas.

The amendment covers also requirements regarding the conditions for development of trans-European networks; promotion of the use of energy from renewable sources; the provisions of the Energy Charter Treaty; informing the EC on investment projects in the power sector and on the degree of openness of the markets of electric energy and natural gas.

New regulations were introduced, which define the manner for selecting operators of network systems; and determine the rights and obligations of power companies.

The so-called negative mutuality clause was introduced, regarding system access. It is meant to secure the Polish market against the negative results of varied pace of opening the electric energy and gas markets by member countries of the EU.

As a result of the amendments introduced into the Energy Law, entities from the EU have the same rights as domestic entities. However, this scope of amendment will become effective after Poland becomes the full member.

With relation to the amendment, a number of secondary provisions were prepared, which came into force during the 1<sup>st</sup> half of 2003 (the ordinance regulating energy effectiveness will come into force in November 2003).

The implementation of EU standards into the Polish law is an ongoing process, as new *acquis communautaire* *continue* to be created.

### ***Restructuring of the power sector***

The fundamental document which sets forth the goals and rules for restructuring and privatisation of the petroleum sector in Poland is the "Strategy for the petroleum sector in Poland", adopted by the Council of Ministers on 24<sup>th</sup> September 2002.

The main goal for the restructuring and privatisation of the petroleum sector is to strengthen the market position of entities operating in this sector; to provide them conditions for durable and sustainable development; and to guarantee the country's energy safety, together with protection.

The rules for the restructuring and privatisation of the electricity sector are contained in the document, "Evaluation of implementation and amendment of the assumptions of Poland's energy policy until 2020". This document was adopted by the Council of Ministers in April 2002. The document states that the purpose of transformation will be to achieve stable levels of energy prices for the national economy; which would be competitive towards prices of energy produced abroad. The transformations are also meant to obtain return on capital invested in that sector. On 28<sup>th</sup> January 2003, The Council of Ministers adopted the *Programme for implementing the ownership policy of the State Treasury Minister towards the energy sector*. This programme contains a detailed schedule of activities, meant to execute the concept of ownership transformation, defined in the document of April 2002.

The basic document which defines the goals and rules for the restructuring and privatisation of the gas sector is the "Program to restructure and privatize the Polskie Górnictwo Naftowe i Gazownictwo S.A." Polish Oil and Gas Company (the state-controlled company in charge of petroleum and gas mining), adopted by the Council of Ministers on 13<sup>th</sup> August 2002.

This programme's priority is to provide the country's energy safety, which is defined as technical and economic conditions to provide uninterrupted deliveries of gas to end users, at economically justified prices; conditions for stable and long-term economic growth and the improvement of the competitive position of the Polish gas sector after accession to the EU. The programme defined the

solutions for the various areas of the gas sector, such as the sub-sector of transfer, warehousing and wholesale trade of gas; the sub-sector of distribution and retail trade of gas; and the sub-sector for search and excavation of natural gas.

On 1<sup>st</sup> January 2003, six regional gas distribution companies started operations. They have been separated from the organisational structures of the national operator of the gas sector, the PGNiG S.A.

### 15.2.3. Adapting the law in the area of free movement of goods

Poland strives for full harmonisation and implementation of the community law regarding free movement of goods, as soon as possible before the planned accession date.

The **law on the conformity assessment system** came partly into force on 1<sup>st</sup> January 2003 (Journal of Laws no. 166, item 1360). The remaining provisions shall come into force at the moment of accession. This law introduces a general clause for mutual recognition in non-harmonized areas into the Polish legislative system.

The law sets conditions for implementing the New Approach Directives and Old Approach Directives (sector-related) into the Polish legal system; and defines the rules for accreditation, authorisation and notification of the entities dealing with conformity assessment. It allows to build a system of conformity assessment in Poland that would be adapted to the EU system. On the basis of this law, the Minister of Economy, Labor and Social Policy issued ordinances which implements the directives of the New Approach. The law has established legal foundations for the operation of a market supervision system in Poland.

On 15<sup>th</sup> April 2003, the Council of Minister adopted draft amendment of the law on conformity assessment system. The change regulates the issue of validity of "old" certificates, issued on the basis of the law on analysis and certification, and also introduces the requirement – starting from the accession date – that all products admitted into trade must be marked with the CE certificate logo. The amendment contains also a chapter which supplements regulations on market supervision system.

Another important step for building the conformity assessment system is the start of the **PECA negotiations** (March 2002). The fact finding mission of the experts of the European Commission gave Poland a positive evaluation. Further activities

were undertaken, and led to the issue of four new ordinances of the Minister of Economy, Labour and Social Policy, implementing the Low Voltage Directive (73/23/EEC), Directive on Personal Protective Equipment (89/686/EEC), the Machinery Directive (98/37/EC) and the Directive on Electromagnetic Compatibility (89/336/EEC).

Since 1<sup>st</sup> January 2002, **the law on normalisation, dated 12<sup>th</sup> September 2002** is in force (Journal of Laws No. 169 of 2002, item 1386). According to this law, application of any norms is voluntary, and the ordinances of competent ministers, introducing norms as obligatory, became invalid. The law adapted also other aspects of the Polish normalisation system to the Community system. The Polish Normalisation Committee became the national normalisation entity; the Normalisation Issue Committees became technical committees; and the Polish Norms – voluntary – are approved and withdrawn by the President of the Polish Normalisation Committee.

Intensive works are underway with the view to complete the process of building the **institutional structures**. The Polish administration of measures is successively implementing EU regulations regarding legal metrology. The Office for Competition and Consumers Protection prepared a detailed *Executive Programme for Implementing the Market Surveillance System with Relation to New Approach Directives*. This programme presents in detail the assumptions, tasks and goals. This programme was adopted by the Council of Ministers on 12<sup>th</sup> May 2002. As part of preparation for accession, the Polish Normalisation Committee applied for membership in CEN and CENELEC, and the Polish Accreditation Center is in the final stage of signing the MLA (Multilateral Agreement). The Ministry of Economy, Labour and Social Policy has already commenced the verification of potential entities, notified for individual directives which are within the Ministry's scope of competencies.

#### **15.2.4. Adapting the rules of public aid to the system used in the Communities**

In December 2002, Poland closed negotiations with the European Union, regarding the adaptation of the rules for granting public aid to entrepreneurs operating in the Special Economic Zones, on the basis of permits issued in 1995–2000. The conditions, negotiated and recorded in the Accession Treaty, regulating business activity in SEZ for these entrepreneurs are as follows:

- the interim period – maintenance of current rights – for small enterprises until the end of 2011, and for medium-sized ones until the end of 2010;
- for large entrepreneurs who received permits by the end of 1999, the maximum volume of public aid amounts to 75% of the project costs; and in case of permits issued in 2000 – 50%;
- for enterprises from the motor vehicle industry, maximum public aid amounts to 30% of total project costs;
- the start date from which aid for large enterprises and enterprises from the motor vehicle sector is calculated is set at 1<sup>st</sup> January 2001;
- reduction of investment projects which can be covered by public aid – in the case of large enterprises and enterprises from the motor vehicle sector – to expenses incurred from the date of receiving the permit until the end of 2006.

The above described conditions were written into the draft law amending the law on Special Economic Zones and other laws, which is currently being worked on by the European Committee of the Polish Parliament. The draft law assumes that the new rules for granting public aid in Special Economic Zones would become effective after Poland joins the EU.

The new regulations will apply to all entrepreneurs whose permits were issued in the period 1995–2000. It is assumed that the legislative work on the law and related secondary provisions should be completed in the 3<sup>rd</sup> quarter of 2003.

### **15.3. Compliance with the criteria of the Maastricht Treaty – participation in the Economic and Currency Union**

Poland, declaring in its negotiations position the readiness to join the European Union, confirmed also its intention to join the Economic and Currency Union at the moment when it reaches appropriate economic convergence and meets the convergence criteria (defined in the Maastricht Treaty). These criteria formally define the conditions in participation in the common currency – the euro. The provisions of the Treaty do not impose the obligation to participate in the common currency. Despite this, the newly acceding countries are obliged to accept the main EU goals, which include the creation of a fully unified common market, and the common currency.

The Maastricht Treaty defines four criteria, which are the condition for participating in the common currency. The criteria are defined for the year which precedes the analysis of compliance with criteria.

The convergence criteria apply to the following issues:

- Stability of prices: the average inflation rate should not be higher by more than 1.5 percentage point than inflation in three best performing countries in terms of price stability;
- budgetary deficit: the planned or actual government deficit should not exceed 3% of the Gross Domestic Product, measured in market prices;
- public debt: in the year preceding the analysis, the share of public debt in the Gross Domestic Product, measured in market prices, should not exceed 60%;
- interest rates: the average nominal long-term interest rate should not be higher by more than 2 percentage points than the rates in the three countries with the lowest rate of inflation.

The additional condition specifies that before joining the common currency, a country must participate in the European exchange-rate mechanism – the ERM II. This means that a central exchange rate against the euro is set, and its fluctuation cannot exceed 15% on either side.

The common currency came into force on 1<sup>st</sup> January 1999, with 12 participating Member Countries. From this moment, the reference value is the level of inflation and interest rates of the Euro zone – replacing the three best countries with the lowest inflation rate.

The goal of Poland's economic policy is to comply with the requirements defined in the convergence criteria of the Economic and Currency Union. In 2002, the country came closer to meeting the conditions defined in the Maastricht Treaty.

I. The fiscal criteria: the public debt and budget deficit:

Poland complies with the condition of the admissible level of public debt (the reference value is set at 60% of Gross Domestic Product). In 2002 this ratio, measured according to EU standards, reached the level of about 44%.

The criterion of public finances deficit is not complied with (the admissible level amounts to 3% of GDP). In 2002, the volume of deficit of the public finance sector in Poland, measured according to the methodology of the European Union, reached more than 4% of Gross Domestic Product.



## II. Monetary criteria:

Average annual inflation in Poland (measured with the Consumer Price Index) reached in 2002 the level of 1.9% (a decrease, compared to the previous year, by 3.6 percentage points); and measured December to December, 0.8% (a decline by 2.8 percentage points, compared to the same period of the previous year). The inflation level was the lowest since the start of economic transformation. The inflation of CPI in Poland in 2002 was lower than its average level in the countries of the European Union, which means that Poland meets the inflation convergence criterion.

Interest rates – until the end of 1998, Poland did not have a financial instrument that would allow to evaluate the criterion of interest rates. However, a constant tendency to reduce the rediscount and collateral lending rates of the NBP was observed, which, coupled with the decreasing level of investment risk, has significant influence on the level of interest on credits and other debt instruments. In May 1999, the Ministry of Finance issued the first in the modern history of Poland series of 10-year treasury bonds with fixed interest rates, which are the right point of reference for this criterion. The level of long-term interest rates on these bonds was reduced from 11.2% in 2000 to 8.9% in December 2001 and 5.6% at the end of 2002. This means that Poland is close to meeting the criterion of interest rates.

Additional criterion – participation in ERM II. Until the moment of accession to the EU, Poland cannot participate in this mechanism. The foreign exchange rate policy of the National Bank of Poland responds to the needs tied to processes of economic adaptation and liberalisation of the Polish financial market. It does not foresee the possibility for limiting the flexibility of PLN exchange rate. The mechanism of a progressive central exchange rate with a wide scope of fluctuation (+/- 12.5%), used in 1999, was replaced with the fully liquid exchange rate, on 12<sup>th</sup> April 2000. This is meant to guarantee full market balance of the PLN exchange rate, before it becomes fixed due to membership in the ERM II mechanism. The central PLN exchange rate to the euro would be set, and its fluctuations would not be allowed to exceed more than 15%. Before joining the Euro Zone, Poland must participate in the ERM II system for at least 2 years.



## Chapter 16

# THE STATE BUDGET

The difficult situation of the system of public finances is an important factor which threatens the stability of economic development. **Since the beginning of the 1990's, the ratio of budget deficit to the Gross Domestic Product improved slowly. In 1999, it amounted to about 2%.** The change of the economic situation in the second half of 2000, worsening economic situation in the subsequent years, and the implementation of costly social reforms caused the situation in the public finances sector to deteriorate.

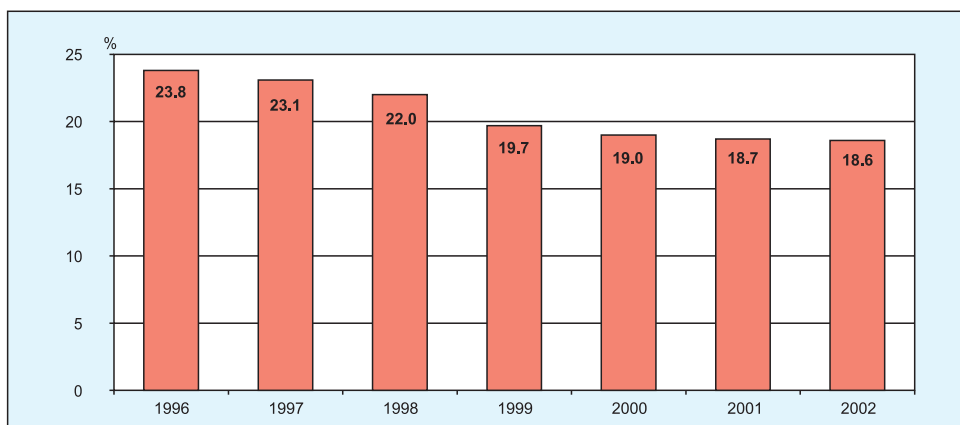
The budgetary law for 2002, adopted on 14<sup>th</sup> March 2002, assumed that revenues would amount to 145.1 billion PLN, expenses to 185.1 billion PLN, and deficit would equal 40 billion PLN. The data on the execution of the 2002 budget show that both revenues and expenses did not exceed the planned level (about 99%). **The actual revenues reached 143.5 billion PLN, and expenses 182.9 billion PLN. Deficit reached 39.4 billion PLN, which was 98.5% of the value assumed in the budget law (5.1% of the GDP).**

The overall economic situation of the country had an important influence on the execution of 2002 budget, as it differed significantly from the economic forecast, used as the basis for the budget assumptions. The growth of GDP was faster than planned, and contributed to increase revenues. However, a reversed role was played by the decreasing level of inflation and changes in the taxation area, meant to create more comfortable conditions for stimulating economic growth and to improve the financial situation of enterprises.

### 16.1. Revenues of the state budget

Budget revenues in 2002 reached 143.5 billion PLN. In nominal terms, it means an increase of 2.1%, and in effective terms, by 0.2%. The ratio of revenues to GDP reached the level of 18.6% (in 2001, 18.7%). During the 1st half of 2003, revenues of the state budget amounted to 71.9 billion PLN; and expenses to 95.7 billion zloty. Deficit reached 23.8 billion PLN.

**Chart 35. Ratio of revenues of the central budget to the GDP in 1996–2002**



*Source: Ministry of Finance.*

The level of revenues of the central budget in 2002 was shaped by macroeconomic changes, by changes in the fiscal system – taken into account in the course of work on the budget law 2002; and also by changes which were introduced in the course of the budget year. The changes which served to strengthen the budget revenues include:

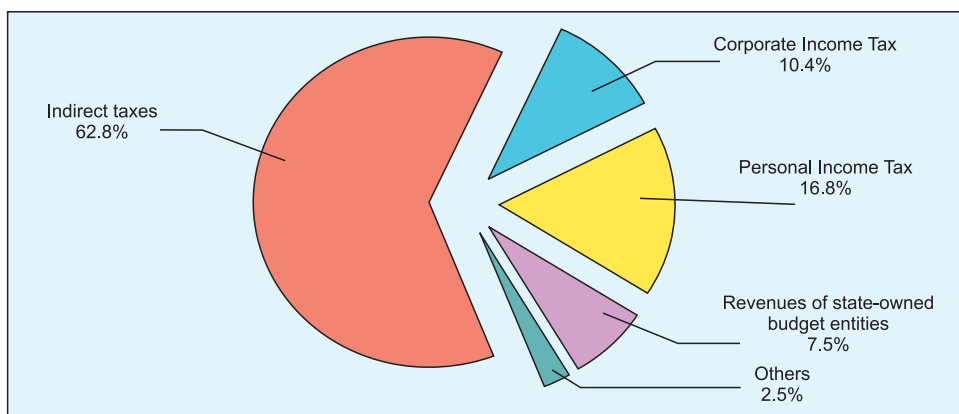
- higher rates of VAT charged on some goods and services,
- application of VAT to the sale of rights, licenses, sub-licenses and the right to use a trademark,
- application of excise duty to electric energy,
- application of fixed-rate taxation to some financial gains,
- “freezing” the taxable basis for personal income tax on the levels of 2001,
- replacement of the tax allowance, tied to expenses for the construction or purchase of a dwelling (the so-called “large tax allowance”) with an allowance enabling to deduct the interest charged on a credit contracted to finance the construction or purchase of residential unit.

**The largest element of revenues were the revenues tied to indirect taxation** (VAT, excise duty, tax on games), which amounted to 62.8% of the total revenues in 2002. Their level was higher than a year earlier (by 9.3%), but lower than assumed under the budget act, due to lower inflation (which influenced the nominal level of VAT revenues) and the fact that excise duty on electric energy was introduced

later than the beginning of the year. Revenues on excise duty on cars and fuels were also lower than expected.

As a result of better effectiveness of the functioning of enterprises, and a reduction of their costs, the revenues on Corporate Income Tax were higher, by 13.5%. The lowest increase was registered in the revenues on Personal Income Tax, despite the fact that these revenues were also higher from the level of the previous year, by 3%.

**Chart 36. Structure of the state budget revenues in 2002**



## 16.2. Expenses of the state budget

The executed expenses of the state budget reached 182.9 billion PLN. The share of expenses in the GDP reached 24.1%, and was higher than during the last four years.

The structure of expenses in 2002, similarly as in the previous years, was determined by the expenses resulting from laws or other, earlier contracted and legally binding obligations. The share of fixed and semi-fixed expenses is rising, which is due primarily to the higher costs of implementing the reforms of social insurance and healthcare systems. The high share of social expenses makes it impossible to allocate sufficient funds for infrastructure investments, education system or the court system. The demographic situation – if no changes occur in the current system of social insurance – will not allow these expenses to be reduced in the nearest future.

**Table 64. Structure of the expenses of the state budget (%)**

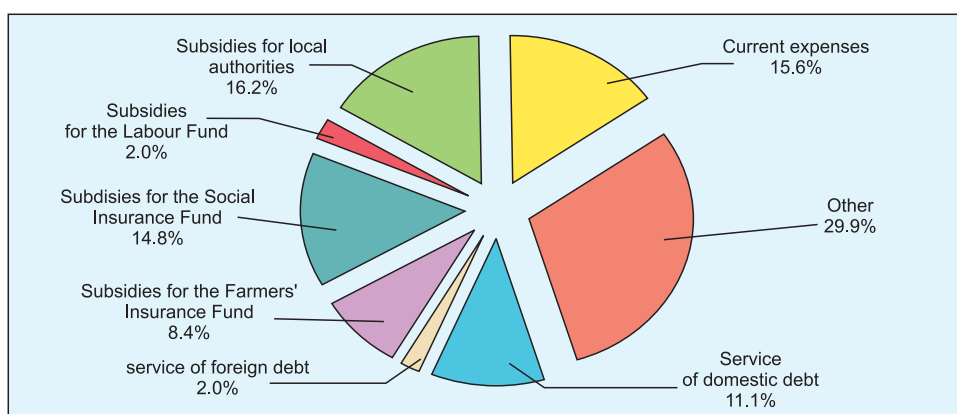
Expenses	1998	1999	2000	2001	2002
Fixed expenses	53.7	58.2	61.1	65.2	66.7
Flexible expenses	46.3	41.8	38.9	34.8	33.3

*Source: Ministry of Finance.*

**The largest item of the expenses were subsidies for local authorities (16.2%).** Payments for social insurance are an important element of the state budget expenses. The subsidies for the Social Insurance Fund and the Farmers' Insurance Fund, together with primary financial supply for these institutions, constituted one-fourth of total state budget expenses. In 2002, similarly as in 2001, the expenses tied to subsidies for the Labour Fund rose very quickly.

The importance of domestic debt is also growing, and its share in the budget expenses rose from 9.1% in 2000 to 11.1% in 2002.

**Chart 37. Structure of the state budget expenses in 2002**



*Source: Ministry of Finance.*

## 16.3. Deficit of the state budget

**The deficit of the state budget amounted to 39.4 billion PLN in 2002.** The budget shortages were financed from domestic and foreign sources.

**Table 65. Financing structure of the state budget deficit in 2001–2002**

Description	2001 r.	2002 r.	
		budgetary law	implementation
Financing of deficit	32,358.3	40,000.0	39,402.6
Domestic	43,670.8	38,820.3	35,954.6
of this: Privatization	6,490.1	6,600.0	1,971.6
Foreign	-11,312.5	1,179.3	3,448.0

*Source: Ministry of Finance.*





## Chapter 17

# THE BANKING SECTOR

The conditions in which the banks operated in 2002 were significantly influenced by the overall economic situation of the country. The low rate of economic growth, decreasing stock market indices and small growth of credits had a negative influence on the results achieved by the banks. The problems encountered by the customers of the banks with ongoing repayment of credits forced these banks to establish large reserves for bad loans. The net financial result achieved by the whole banking sector amounted to 2,723 million PLN. In 2001, it reached 4,232 million PLN. As a result of mergers and acquisitions, the number of banks operating in Poland was reduced from 713 in 2001 to 667 in 2002. Of this, the number of commercial banks dropped from 71 to 62. The consolidation processes in banks contributed to reduce employment in this sector. In 2002, it was reduced by 6,476 employees, and amounted to 158,7 employees<sup>1)</sup>.

### 17.1. Ownership structure of the banking sector

The changes which occurred in the ownership structure of the banking sector in 2002 were not significant. In 2002, similarly as in the previous year, the State Treasury controlled – directly or indirectly – 7 banks. Of this, three banks were under direct control of the State Treasury: PKO BP S.A., Bank Gospodarki Żywnościowej S.A., Bank Gospodarstwa Krajowego which has the status of a state bank; and the Bank Rozwoju Budownictwa Mieszkaniowego S.A. which does not engage in operating activity.

During the recent years, the process of consolidation of banks has made significant progress. This is proven by the fact that the number of banks in Poland in 1993 amounted to 1,740. Of this number, 1,653 were cooperative banks. In 2002, these numbers dropped to 667 and 605, respectively.

The most important consolidation processes in the Polish banking sector in 2002 included:

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<sup>1)</sup> As full time employees.

- the merger of Powszechny Bank Kredytowy S.A. with the Bank Przemysłowo-Handlowy S.A. The merger occurred on 31.12.2001, and the bank started functioning as a single entity since January 2002;
- the merger of BRE Bank S.A. with Bank Częstochowa S.A.,
- on 30th June 2002, the Bank Inicjatyw Społeczno-Gospodarczych S.A. merged with the Bank Cukrownictwa CUKRUMBANK S.A.
- the scandinavian Nordea group took over LG Petro Bank, after the Korean investor withdrew from it;

Two new banks, which received their licenses in 2001, commenced operating activity in 2002: MHB Bank Polska S.A. and Bank of Tokyo-Mitsubishi. Dresdner Bank Polska S.A. commenced operations in January 2002, using as the basis the Bank Powierniczo-Gwarancyjny S.A. which it purchased.

The foreign capital plays a dominant role in the banking sector. At the end of 2002, foreign investors from 14 countries were involved in the Polish banking sector. The largest investments into the banking sector were made by financial institutions from: Germany, USA, the Netherlands and Ireland.

**Table 66. Ownership structure of the banking sector**

No	Description	in PLN					Structure in %	
		31.12.98	31.12.99	31.12.00	31.12.01	31.12.02	31.12.01	31.12.02
1	2	3	4	5	6	7	8	9
1	Initial capital (statutory fund, share fund), of this, owned by:	7,530	7,698	8,500	9,966	11,147	100,0	100,0
2	– directly by the State Treasury	1,351	1,037	977	1,236	1,697	12.4	15.2
3	– National Bank of Poland	8	8	0	0	0	0.0	0.0
4	– state legal persons	319	250	225	217	150	2.2	1.3
5	– other domestic entities	690	866	1,405	984	1,017	9.9	9.1
6	– foreign entities	3,561	4,089	4,575	5,835	6,742	58.5	60.5
7	– scattered shareholders <sup>2)</sup>	1,243	1,056	896	1,246	1,066	12.5	9.6
8	– shareholders of cooperative banks	357	392	423	448	475	4.5	4.3

Source: *Financial situation of banks in 200*, NBP, Warsaw, May 2003.

<sup>2)</sup> "Scattered capital" – controlled by shareholders who have less than 5.0% of votes at the General Meeting of Shareholders.

## 17.2. Assets of the banking sector

In 2002 the assets of the banking sector dropped for the first time since 1993 – by 0.6%, compared to the previous year. A growth of assets, by 8.9%, was registered only among the cooperative banks.

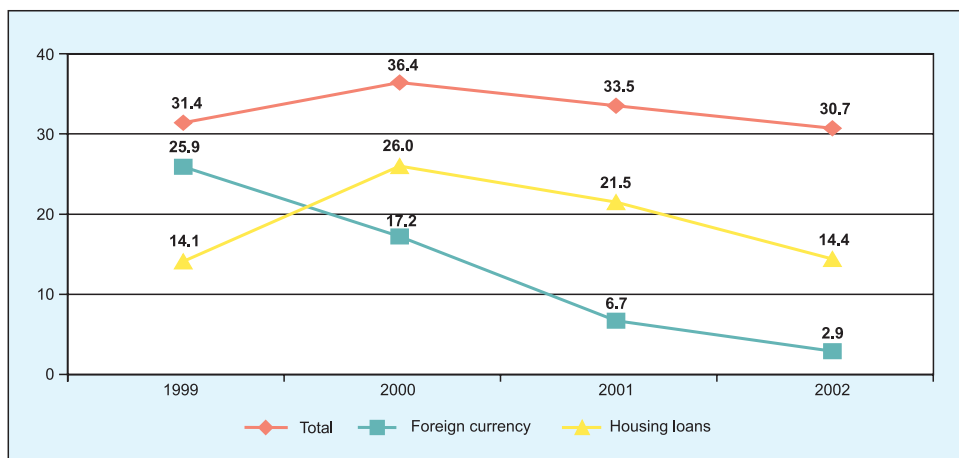
The most important element of the assets structure of the banking sector, similarly as in the previous years, were the receivables from the non-financial sector, which reached 43.3% of total assets, and increased by 1.8%.

**Table 67. The structure and dynamics of assets of the banking sector, in PLN million (except for the National Bank of Poland)**

Lp.	Description	2001	%	2002	%	2001 = 100
	<b>Receivables from the financial sector, of this:</b>	<b>120,709.3</b>	<b>25.6</b>	<b>88,904.4</b>	<b>19.0</b>	<b>73.7</b>
1.	– Obligatory reserves	16,394.9	3.4	13,146.6	2.8	80.2
	– Inter-bank deposits	75,745.5	16.0	48,128.6	10.3	63.5
	– Other receivables	28,568.9	6.2	27,665.2	5.9	96.8
2.	<b>Receivables from the budgetary sector</b>	<b>11,301.3</b>	<b>2.4</b>	<b>14,657.7</b>	<b>3.1</b>	<b>129.7</b>
3.	<b>Receivables from the non-financial sector</b>	<b>199,443.3</b>	<b>42.3</b>	<b>203,144.4</b>	<b>43.3</b>	<b>101.8</b>
	– Credits for businesses	137,790.4	29.2	111,300.2	23.7	80.8
	– Credits for households	50,623.5	10.7	79,258.2	16.9	156.6
	– Other receivables	11,029.4	2.4	12,586.0	2.7	114.1
4.	<b>Securities</b>	<b>95,802.7</b>	<b>20.3</b>	<b>105,304.8</b>	<b>22.4</b>	<b>109.9</b>
	– cash bonds	14,206.3	3.0	7,253.1	1.5	51.0
	– Bonds of the NBP	9,926.5	2.1	13,481.7	2.9	135.8
	– Treasury bills	18,628.8	4.0	23,120.2	4.9	124.1
	– Treasury bonds	35,767.0	7.6	43,416.0	9.2	121.4
	– Restructuring bonds	7,077.5	1.5	6,263.1	1.3	88.5
	– Other securities	10,196.6	2.1	11,770.7	2.5	115.4
5	<b>Other assets</b>	<b>44,443.7</b>	<b>9.4</b>	<b>57,114.7</b>	<b>12.2</b>	<b>128.5</b>
	– including fixed assets	21,014.3	4.5	22,353.0	4.8	106.4
<b>Total assets</b>		<b>471,700.3</b>	<b>100.0</b>	<b>469,162.0</b>	<b>100.0</b>	<b>99.5</b>

Source: *Banks 2002, Report on the banks' economic situation, Union of Polish Banks, Warsaw 2003.*

In 2002, the decline of receivables from businesses dropped significantly – by 19.2%, or by 26.5 billion PLN compared to 2001. Meanwhile, credits for households increased.

**Chart 38. Increase of credits for the non-financial sector in 1999–2002 (%)**

Source: *Financial situation of the banks in 2002, Synthesis, NBP, May 2003.*

Increase of credits for the non-financial sector was achieved thanks to the demand for credits denominated in foreign currency, on which the interest rate was relatively low. Their share in total credits is growing each year.

**Table 68. The share of foreign currency denominated credits in total credits for non-financial sector (%)**

Groups of borrowers	1997	1998	1999	2000	2001	2002
The non-financial sector	16.0	21.8	19.1	21.6	24.6	27.0
– households	3.4	5.7	5.0	10.1	19.0	27.5
– businesses	18.8	25.4	23.1	25.4	26.6	26.9

Source: *Report, Banks 2001 and 2002.*

## 17.3. Liabilities of the banking sector

The largest item, amounting to 60.9% of liabilities of the banking sector were the deposits of the non-financial sector, which reached 285.5 billion PLN. In 2002, a decline of deposits was registered for the first time. It reached 2.7%, or 7.8 billion PLN. The falling volume of deposits is due to lower interest rates offered by the banks, and to the fact that interest revenues earned by individuals are subject to taxation. These two factors contributed to the move of surplus financial assets, from bank accounts to investment funds, and for the purchase of Treasury bonds.

**Table 69. Nominal and effective growth of the deposits of non-financial entities in 1998–2002**

Deposits	1998	1999	2000	2001	2002
<b>Nominal dynamics</b>					
<b>Total</b>	<b>129.9</b>	<b>117.2</b>	<b>114.9</b>	<b>112.9</b>	<b>97.8</b>
– households	130.5	115.3	120.7	111.9	101.7
– businesses	128.3	122.3	100.8	115.8	86.8
<b>Effective dynamics</b>					
<b>Total</b>	<b>119.6</b>	<b>106.8</b>	<b>105.9</b>	<b>109.0</b>	<b>97.0</b>
– households	120.1	105.0	111.2	108.0	100.9
– businesses	118.2	111.4	92.9	111.8	86.1

Source: Report, Banks 2002, Union of Polish Banks, Warsaw 2003.

In nominal terms, the total funds of banks rose by 4,037.5 million PLN in 2002. Basic funds increased by 3,997.1 million PLN. This increase was due mainly to the fact that 2.6 billion PLN (3.4 billion in 2001) of the profits earned by the banks in 2001 was designated by the banks to increase their capital. The capital of some banks was increased by issue of shares. The remaining profit for 2001, amounting to 1.4 billion zloty, was distributed to shareholders of the banks. Of this, almost 1.0 billion zloty was distributed to foreign shareholders.

**Table 70. The structure and dynamics of liabilities of the banking sector, in million PLN (except for the National Bank of Poland)**

No	Description	2001 r.	Structure (%)	2002 r.	Structure (%)	2001 = 100
<b>1</b>	<b>Liabilities towards the financial sector</b>	<b>66,939.1</b>	<b>14.2</b>	<b>63,214.7</b>	<b>13.5</b>	<b>94.4</b>
	– Inter-bank deposits	52,475.6	11.1	23,337.4	5.0	44.5
	– Other	14,463.5	3.1	39,877.3	8.5	275.7
<b>2</b>	<b>Liabilities towards the budget sector</b>	<b>17,031.9</b>	<b>3.6</b>	<b>20,308.7</b>	<b>4.3</b>	<b>119.2</b>
<b>3</b>	<b>Liabilities towards the non-financial sector</b>	<b>293,312.9</b>	<b>62.2</b>	<b>285,508.0</b>	<b>60.9</b>	<b>97.3</b>
	– businesses	75,150.2	15.9	65,198.0	13.9	86.7
	– households	212,298.7	45.0	215,969.2	46.1	101.7
	– Other	5,174.7	1.3	4,340.8	0.9	83.9
<b>4</b>	<b>Total funds</b>	<b>41,137.2</b>	<b>8.7</b>	<b>45,174.7</b>	<b>9.6</b>	<b>121.7</b>
	– basic funds	37,860.8	8.0	41,857.9	8.9	122.8
<b>5</b>	<b>Other liabilities</b>	<b>53,279.2</b>	<b>11.3</b>	<b>54,955.9</b>	<b>11.7</b>	<b>103.1</b>
<b>Total liabilities</b>		<b>471,700.3</b>	<b>100.0</b>	<b>469,162.0</b>	<b>100.0</b>	<b>99.5</b>

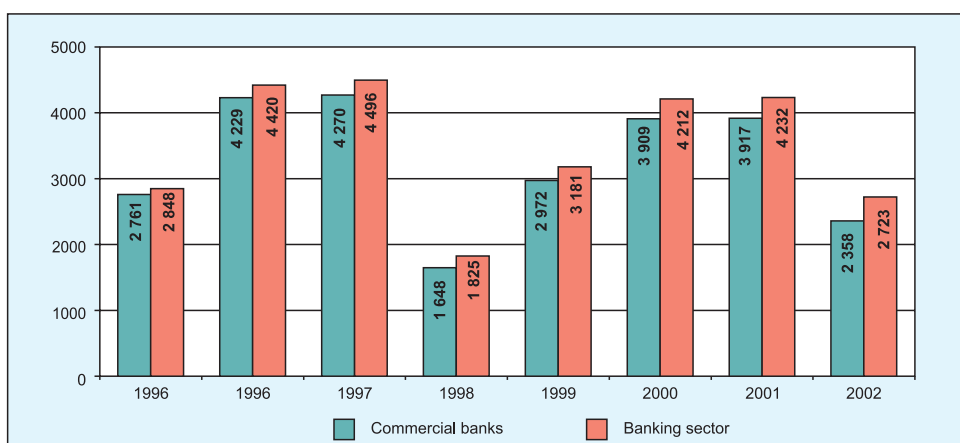
Source: Banks 2002, Report on the banks' economic situation, Union of Polish Banks, Warsaw 2003.

## 17.4. Financial result of the banks

In 2002, the financial results achieved by the banking sector were worse than a year earlier. Gross financial result decreased by 1.23 billion PLN, compared to 2001; and net financial result dropped by 1.35 billion. The most important factors influencing financial result was the bad economic situation; the changes introduced into the banks' accounting principles, and the negative balance of the established and dissolved reserves.

This tendency remained in place also in 2003. According to preliminary data, the net profits of the banking sector for the 1<sup>st</sup> half of 2003 were lower by 10.5%, compared to the same period of the previous year. They amounted to 2.07 billion PLN, compared to 2.32 billion a year ago. In the group of the largest banks, very good results were achieved by PKO BP S.A. – net profit of 722.5 million PLN; and Pekao S.A. with 505.8 million PLN. These banks traditionally achieve high profits, and their combined financial result constitutes about half of the total profits of the whole Polish banking sector.

**Chart 39. Net profit of commercial banks and of the banking sector in million PLN**



Source: *Financial situation of the banks in 2002, Synthesis, NBP, May 2003.*

## Chapter 18

# THE CAPITAL MARKET

The capital market plays an important role for the acquisition of capital by enterprises; and also in the processes of restructuring and privatization of enterprises. That's why a developed capital market can provide a very important source of financing for economic growth.

The main institutions of the Polish capital market are:

- the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie), which organizes cash-based and forward trade in securities,
- the National Depository of Securities, which settles the transactions concluded on the regulated market, and stores securities – in the form of electronic, computer records;
- the National Bank of Poland, with whom the National Depository of Securities performs financial settlements,
- the Centralna Tabela Ofert (the quotation Table) – operating since 16<sup>th</sup> January 2001, the non-official, regulated over-the-counter market, easily accessible to issuers of bonds and shares. At the CTO, the admissibility conditions are reduced to a minimum, information requirements are simple, and the manner of registration easy;
- brokerage houses.

The basic legislative act which regulates the operations of the capital market is the law dated 21<sup>st</sup> August 1997, the Law on Public Trading in Securities. It sets forth the rules and scope of functioning for such institutions of the capital market as the Securities and Exchange Commission, which is a state administration body supervising the operations of institutions of the capital market, that is: of the Warsaw Stock Exchange, the National Depository of Securities and of the brokerage houses.

The Warsaw Stock Exchange is a joint stock company, established by the State Treasury. Its capital stock amounts to 42 million PLN. At the end of 2002, the WSE had 44 shareholders, including the State Treasury, brokerage houses, banks and 1 publicly traded company<sup>1)</sup>. The Warsaw Stock Exchange, compared to most

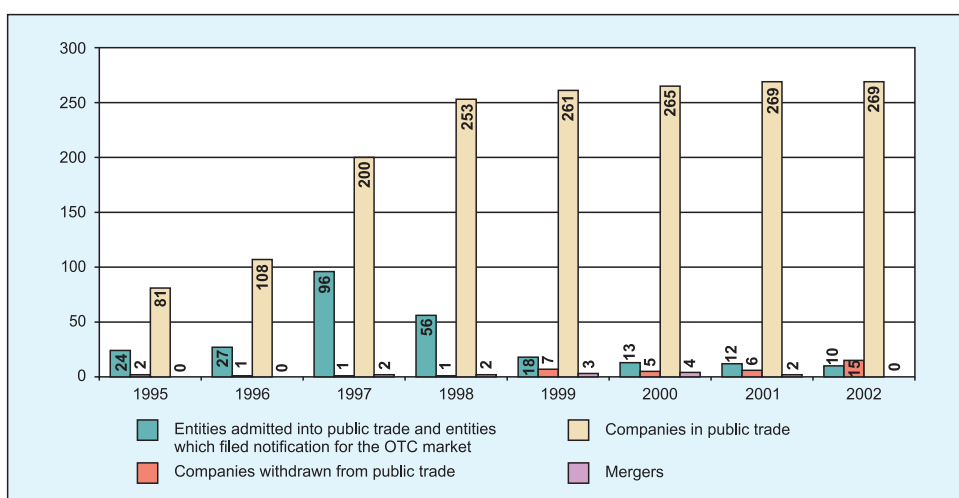
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<sup>1)</sup> WSE, Stock Exchange Yearbook 2003, page 7.

Western European stock exchanges, is small. From the standpoint of its capitalisation and the volume of turnover in the share market, it is one of the largest capital markets in the region. From the standpoint of ratio of stock market capitalization to GDP, the WSE falls behind other stock exchanges of the region.

At 31<sup>st</sup> December 2002, the WSE traded securities of 264 entities, including shares of 216 companies. The CTO traded securities of 22 entities, including shares of 20 companies.

**Chart 40. Number of entities traded at the WSE**



Source: Securities and Exchange Commission, Annual Report 2002.

The largest companies traded at the WSE at the end of 2002, which had the largest share in its participation, were:

	capitalisation in million PLN	Share in %
• TP S.A.	– 17,850	16.1
• Bank PeKaO	– 15,683	14.2
• Bank Handlowy	– 9,329	8.4

The share of these three companies in the total capitalisation of the WSE amounted to 38.7% at the end of 2002. The 20 largest companies traded at the WSE constitute 84.7% of its total capitalization. The remaining 15.5% is distributed among 196 listed companies. The Polish stock exchange includes many small companies, with low capitalisation.



## 18.1. The basic values of the capital market

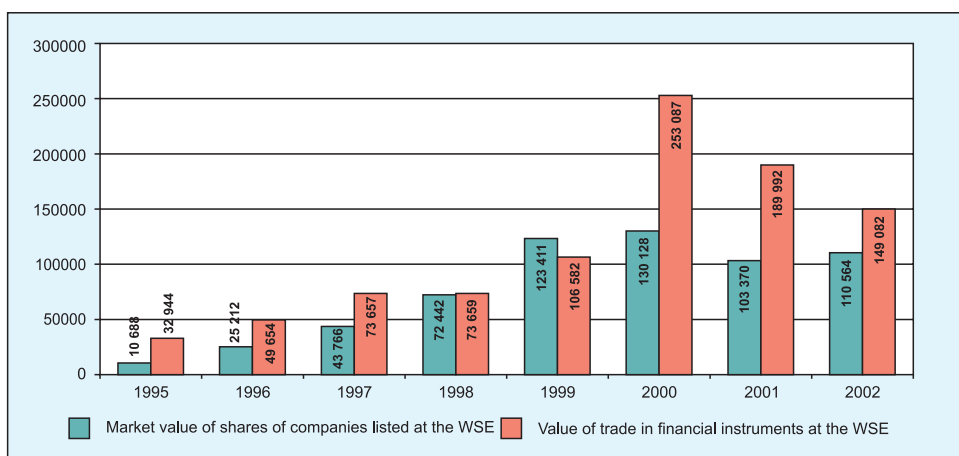
Year 2002 was a difficult period, not only for the Warsaw Stock Exchange, but also for the whole capital market. This was due to many reasons. The most important ones included the difficult economic situation of the country, poor global economic situation and the resulting increase of investment risk. Under such circumstances, some potential issuers decided to postpone their issue dates, waiting for an improvement of the overall situation. The total value of public offerings organised in 2002 amounted to more than 2.5 billion PLN. Of this total, issues of bonds were worth about 2.0 billion; and issues of shares more than 566 million PLN. The value of Initial Public Offerings amounted to about 9.0 million PLN. Starting from 1998, the value of public offers is constantly decreasing.

This situation is reflected in the decline in trade of financial instruments, from 180.0 billion PLN in 2001 to 149.1 billion in 2002. In terms of WSE turnover value, these instruments accounted for 78.5% of its value in 2001, and 58.9% in 2002.

Capitalization of the WSE rose by over 7.0 billion zloty, and amounted to 110.6 billion PLN at the end of 2002.

The value of trade in financial instruments, and the market value of shares listed at the WSE in 1995–2002 is presented in Chart 3.

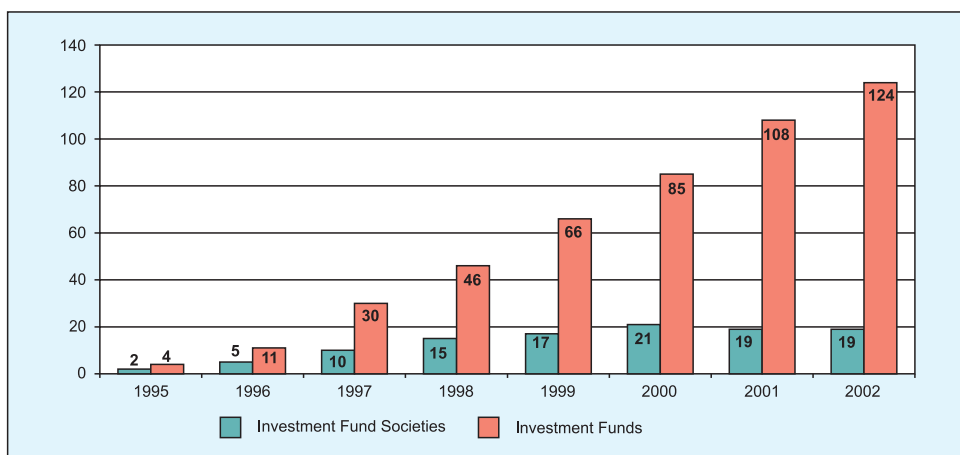
**Chart 41. Market value of companies listed at the WSE, and value of turnover in financial instruments at the WSE, in million PLN**



Source: Warsaw Stock Exchange, Annual Report 2002.

In 2002, institutional investors – the Open Pension Funds and investment funds – played an important role at the WSE. The value of assets of investment funds is increasing rapidly every year. At the end of 2002, investment funds managed assets worth 22.9 billion PLN, compared to 12.1 billion in 2001, and 7.1 billion in 2000. This tendency remained in place also in 2003. According to preliminary data, in the end of June 2003, the value of assets managed by investment funds amounted to 31.5 billion PLN. Compared to the end of 2002, this is an increase of 8.6 billion PLN, or by 37.7%. The number of Investment Fund Societies and of investment funds also rose, which is illustrated in the Chart below. The high growth of these funds is caused by the reaction of investors to taxation of revenues earned on bank deposits.

**Chart 42. The number of Investment Fund Societies and Investment Funds**



*Source: Securities and Exchange Commission, Annual Report 2002.*

The Open Pension Funds are also an important group of institutional investors. At the end of 2002, the pension funds managed assets worth 31.5 billion PLN. At the end of June 2003, the value of assets under their management increased to 37.8 billion PLN.

The weak trading at the Stock Exchange was reflected in the declining values of most stock market indices. At the end of 2002, most stock market indices were lower than a year earlier. The largest decreases touched the index of companies from the segment of innovative technologies – TechWIG – which dropped by 39.7%; and the total return index WIRR, which fell by 22.6%. WIG, which is the basic index of the WSE, rose by 3.2%.

**Table 71. Stock market indices in 1999–2002 and in the 1<sup>st</sup> half of 2003**

Name of index	1st half of 2003		2002		2001		2000		1999	
	return rate (%)	value at the end of the year	return rate (%)	value at the end of the year	return rate (%)	value at the end of the year	return rate (%)	Value at the end of the year	return rate (%)	value at the end of the year
WIG	11.3	15,987.5	3.2	14,366.6	-22.0	13,922.2	-1.3	17,847.5	41.3	18,083.6
WIG20	6.5	1,252.0	- 2.7	1,175.6	-33.5	1,208.3	1.5	1,816.2	43.8	1,755.8
MIDWIG	4.3	991.0	- 6.9	950.2	1.6	1,020.5	-9.9	1,004.7	41.4	1,098.7
TechWIG	34.1	477.3	- 39.7	356.1	-59.5	590.2	45.7	1,456.9	-	1,000.0
WIRR	24.4	1,699.1	- 22.6	1,365.6	-35.8	1,763.7	31.8	2,748.6	24.6	2,085.9
NIF	- 3.2	57.8	1.3	59.8	-1.3	59.0	-2.1	59.8	-7.6	60.6

Source: WSE.

Among the sub-indices of sectors, the largest return rate was achieved by the WIG-Food (index of companies from the food sector), which rose by 47.7%; and WIG-Banking, which rose by 17.8%. The largest decreases applied to: WIG-Telecom, which dropped by 24.0%, and WIG-Construction by 11.0%.

In the first half of 2003, the situation in the stock market improved, compared to the end of 2002. At the end of 1st half of 2003, most of the stock market indices achieved a significant growth.

**Table 72. Sub-sector WIG indices in 1999–2002, and in the 1<sup>st</sup> half**

Name of index	1st half of 2003		2002		2001		2000		1999	
	return rate (%)	value at the end of the year	return rate (%)	value at the end of the year	return rate (%)	value at the end of the year	return rate (%)	value at the end of the year	return rate (%)	value at the end of the year
BANKS	- 2.6	23,472.1	17.8	24,091.0	8.9	20,456.8	- 4.1	18,781.8	53.0	19,577.8
FOOD	4.7	13,260.9	47.7	12,688.4	- 4.4	8,579.6	- 33.1	8,973.2	4.9	13,418.1
CONSTRUCTION.	- 3.0	10,545.5	- 11.0	10,876.4	- 15.9	12,214.3	- 2.9	14,531.6	30.4	16,686.0
TECHNOLOGIES	18.9	11,173.9	- 6.6	9,394.7	- 42.8	10,060.8	- 1.9	17,582.9	40.1	17,929.9
TELECOM	10.5	6,707.1	- 24.0	6,068.2	- 65.5	7,983.2	29.1	23,141.6	40.1	17,929.9

Source: WSE.

## 18.2. Turnover at the Warsaw Stock Exchange

In 2002, the volume of turnover at the stock exchange was reduced. The total turnover of the market was reduced by 21.0%. The turnover of shares went down by 20.0%. The structure of turnover in the cash-based market in 2002 did not change significantly, compared to 2001. Shares of companies dominated the turnover structure – 92.2%, compared to 91.8% in 2001. As the number of new share issues was reduced, the trade in subscription rights and drawing rights was also reduced.

**Table 73. Structure of stock market turnover in 2001–2002, cash-based market**

Financial instruments	Series transactions		Block trades <sup>**)</sup>		Other*		Total		
	2001	2002	2001	2002	2001	2002	2001	2002	Change
1	2	3	4	5	6	7	8	9	10
Shares	60,548	47,729	19,895	15,933	4,052	3,826	84,495	67,488	- 20%
Subscription rights	154	7	2	-	-	-	156	7	- 96%
Drawing rights	109	24	1,345	2	-	-	1,455	26	- 98%
Bonds	5,093	3,986	40	145	18	-	5,151	4,131	- 20%
Investment certificates	4	27	-	-	-	-	4	27	574%
Warranties	20	8	-	-	-	-	20	8	- 58%
TOTAL	65,929	51,781	21,282	16,080	4,069	3,826	91,281	71,686	- 21%

\*) covers public offers for sale and purchase of large share packages; and the market of treasury securities.

\*\*) OFF SESSION BLOCK TRADES – a stock market transaction, concluded off-session. Its minimum value is determined by the regulations of the WSE. Such transaction occurs when at least one member of the stock exchange submits orders for purchase and sale of the same number of securities, at the same price. It can be concluded before securities are introduced into trade (market block trade) or after it becomes traded (off-session block trade).

*Source: Warsaw Stock Exchange.*

In 2002, the WSE traded mainly in the shares of the largest Polish companies, which is illustrated in the Table below.

**Table 74. Companies with the largest turnover at the WSE in 2001 and 2002**

Shares	Continuous and uniform listings				Block trades	
	turnover in million zloty	Share in turnover in %	Average volume per session (shares)	Average number of transactions	Turnover in a month in million zloty	Number of transactions
1. TP S.A.	9,884.0	20.7	1,477,701	1,229	1,835.0	77
2. PeKaO	7,463.7	15.6	157,867	565	32.5	2
3. PKN ORLEN	7,232.6	15.2	767,526	688	1,601.8	56
4. KGHM	2,777.8	5.8	419,249	445	6.5	1
5. BPHPBK	2,380.7	5.0	19,636	180	3,783.8	3
6. PROKOM	1,943.2	4.1	30,868	241	312.4	16
7. BRE Bank	1,908.9	4.0	36,963	222	432.4	7
8. ELEKTRIM	1,762.7	3.7	747,906	631	99.8	12
9. BZWBK	1,362.7	2.9	41,697	167	0.0	0.0
10. AGORA	1,348.9	2.8	47,995	211	25.8	4

Source: WSE.

The share of the ten largest companies in the continuous and uniform listings at the WSE in 2002 amounted to 70.8%; and the 20 largest companies accounted for 90.7% of total stock market turnover. The remaining 196 companies (at the end of 2002, there were 216 companies listed at the WSE) accounted for 9.3% of total stock market turnover.

Despite a decline in the total turnover, the number of accounts of WSE customers is growing. At the end of 2002, there were 1,251.1 customer accounts – which was 6.4% more than a year earlier.



## Chapter 19

# MONETARY POLICY

### 19.1. The goal of monetary policy in 2002 and its implementation

In the *Guidelines for Monetary Policy in 2002*, adopted by the Monetary Policy Council, the inflation goal for the end of 2002 (measured as increase of CPI over the 12-month period, ending in December 2002) is set at 5% over the 2001 value, with possible variance of +/- 1 percentage point. This goal was an element of implementation for the mid-term goal, defined in the **Medium-term strategy of monetary policy for 1999–2003**, adopted in 1998. In this document, the Monetary Policy Council defined the strategic goal of its policy as the reduction of annual inflation below 4% at the end of 2003.

The conditions for the implementation of the inflationary goal in the 1<sup>st</sup> half of 2003 turned out to be even more favorable than originally assumed. The supply factors were particularly positive, especially with respect to prices of food. It turned out that the increases of regulated prices were lower than originally assumed. The dynamics of domestic demand was lower than expected.

The combination of these factors caused the annual inflation to drop from 3.6% in December 2001 to 1.9% in May 2002. From the beginning of the year, the inflationary expectations of both individuals and bank analysts decreased gradually<sup>1)</sup>.

Under such circumstances, it could be expected that inflation in 2002 would be significantly lower from the annual inflation goal set in 2001. As a result, in order to avoid misinterpretations regarding the directions of monetary policy and to maintain its transparency, the Monetary Policy Council decided to revise the inflationary goal for 2002. On 26th June 2002, this goal was reduced to the level of 3%, with possible variance of +/- 1 percentage point.

The actual level of inflation at the end of December 2002 amounted to 0.8%, according to data of the Central Statistical Office. It was lower by 4.2 percentage

<sup>1)</sup> See Report on inflation in 2002, NBP, Warsaw, June 2003.

points than the originally planned level (5%); and 2.2 percentage points lower than the amended level of inflationary goal, set by the MPC in June 2002 (3%).

Such big difference between the actual inflation and the formulated inflation goal was due mainly to the fact that the **implementation of monetary policy in 2002 was conducted under conditions very different from the ones assumed by the National Bank of Poland.**

## 19.2. The basic conditions of the implementation of the monetary policy in 2002

The *Guidelines for Monetary Policy* for 2002 did include notes on large variance regarding the potential influence of global economic situation on the development of Polish economy.

**Year 2002 did not, unfortunately, bring the expected improvement of global economy.** The effective rate of economic growth in the European Union reached 1.0% and was much lower than the expected value of 2.9%. In Germany, Gross Domestic Product rose only by 0.2%.

In Poland, the rate of economic growth in 2002 reached 1.4% and was also lower than the forecasts. When the *Guidelines for Monetary Policy* were prepared, the economic assumptions spoke of 2.5% GDP growth in 2002. Investment outlays in 2002 dropped by 10%. This was due also to reduced influx of foreign direct investments. Despite the high growth of consumer demand which exceeded 3%, domestic demand rose by only 0.8%.

Implementation of the assumptions of monetary policy in 2002 was **positively reinforced by the situation in the food market.** Good crops of grains in 2001 and 2002, and the higher than expected growth in animal production, stopped the increases of food prices.

**The growth of administratively regulated prices was also lower than originally assumed.** Regulated prices rose by 2.7% at the end of 2002, compared to the planned growth of 4.5%.

The monetary policy, and overall economic policy in Poland in 2002, were largely influenced by the **strengthening of the euro in the global markets, and its appreciation in relation to the US dollar and the PLN.**



Effective depreciation of the PLN in relation to the euro caused an improvement of the competitive position of Polish entrepreneurs, and contributed to the higher dynamics of Polish export.

**The rising competitive pressure**, forcing enterprises to increase labour effectiveness, coupled with low production growth, caused a reduction of employment. At the same time, high non-salary charges and stricter regulations of the labor market constituted a barrier to the creation of new jobs. The average employment in the national economy dropped in 2002 by 2.5%, compared to the previous year. The unemployment rate, according to the BAEL report, rose to 19.9% and was higher by 1.7 percentage point than at the end of 2001. The growth of unemployment was significantly influenced by an increase in the number of population in productive age.

**The implementation of monetary policy in 2002 was conditioned by** the increasing imbalance in the public finance sector. The economic deficit of this sector was higher than in 2001. Expressed as ratio to GDP, it amounted to 5.5%, compared to 4.5% in the previous year<sup>2)</sup>.

**The situation of the state budget had a significant share in determining the imbalance of the public finances.** Budget deficit rose to 5.1% of the GDP in 2002, compared to 4.3% in 2001.

The year 2002 was another year of clear **slow-down of privatisation processes**. The level of privatisation revenues was much lower than assumed. It was necessary to increase the issue of Treasury securities (Treasury bills and bonds), to cover the state budget deficit.

### 19.3. Instruments for implementing monetary policy

The National Bank of Poland and the Monetary Policy Council used four groups of instruments to shape the monetary policy in 2002, with the view of lowering the inflation rate. These instruments included: the interest rates, open market operations, credit and deposits operations and refinancing of banks, and the obligatory reserve.

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<sup>2)</sup> See Report on the execution of monetary policy assumptions in 2002, NBP, Monetary Policy Council, Warsaw 2003.

### 19.3.1. The interest rates

The implementation of monetary policy, according to the strategy of direct inflationary goal, required the maintenance of central interest rates of the NBP on a level concurrent with the goal. The open market operations, and credit and deposit operations with profitability levels defined by the Monetary Policy Council, influenced the level of interest rates offered on the interbank market. They had an indirect influence on the interest rates on deposits and credits at commercial banks, and this in turn influenced the decisions of households regarding savings and consumption, and the level of investments made by enterprises.

In 2002, the Monetary Policy Council convened 12 times to consider motions for the reduction of central interest rates. During 4 sessions, such motions were not approved by the majority of members and were rejected. During 8 sessions, the Council decided to reduce the central rates of the NBP, and the scope of the reductions is presented in Table 1.

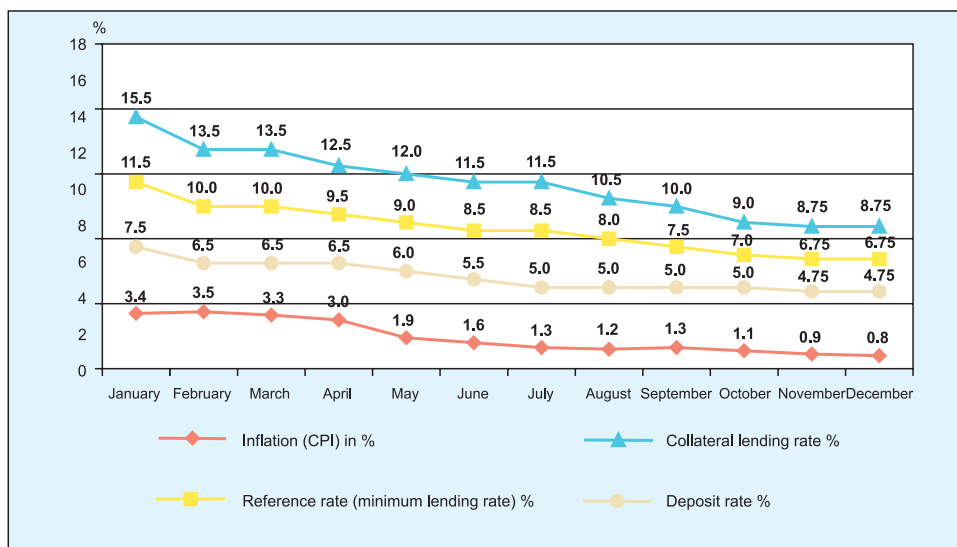
**Table 75. Reduction of interest rates of the NBP in 2002**

Description	Interest rates:			
	Reference rate (minimum lending rate)	Collateral lending rate	Rediscount rate for bills of exchange	Deposit rate
Nominal interest rates in the beginning of 2002, in %	11.5	15.5	14.0	7.5
Changes to the interest rates, made by the MPC, in percentage points:				
31.01.2002	-1.5	-2.0	-2.0	-1.0
25.04.2002	-0.5	-1.0	-1.0	-
29.05.2002	-0.5	-0.5	-0.5	-0.5
26.06.2002	-0.5	-0.5	-0.5	-0.5
28.08.2002	-0.5	-1.0	-1.0	-
25.09.2002	-0.5	-0.5	-0.5	-0.5
23.10.2002	-0.5	-1.0	-0.75	-
27.11.2002	-0.25	-0.25	-0.25	-0.25
Sum of interest rates reductions, in percentage points:	-4.75	-6.75	-6.50	-2.75
Nominal interest rates in the beginning of 2002, in %	6.75	8.75	7.50	4.75
Effective interest rates at the end of 2002 (taking CPI into account) in %	5.90	7.90	6.65	3.92

*Source: Report on inflation in 2002, National Bank of Poland, Warsaw, June 2003; and own calculations.*

Contrary to 2001, when the cuts were equal across all interest rates and amounted to 7.5 percentage points; the reductions in 2002 were uneven, and narrowed the symmetrical path of variances of interest rates. This is illustrated in Chart 43.

**Chart 43. Basic nominal interest rates of the NBP and inflation in 2002**



Source: Data NBP.

The scope of reductions of the nominal interest rates, introduced in 2002, ranged from 2.75 percentage points (deposit rate) to 6.75 percentage points (collateral lending rate). As a result of these reductions, the effective lending rates (calculated with the CPI deflator) at the end of 2002 reached the following levels: the reference rate – 5.90%, the collateral lending rate – 7.90%; the rediscount rate for bills of exchange – 6.65%, and the deposit rate – 3.92%.

During the 1<sup>st</sup> half of 2003, the Monetary Policy Council made six further reductions of the prime rates of the NBP. Each time, the reductions ranged from 0.5 to 0.25 percentage point. As a result at the end of June 2003, when inflation dropped further to the level of 100.8%, the effective interest rates of the National Bank of Poland reached the following levels: the reference rate – 4.40%, the collateral lending rate – 5.90%; the rediscount rate for bills of exchange – 4.90%, and the deposit rate – 2.90%.

## 19.4. Changes in the foreign exchange rates and their influence on economic processes

In 2002, the strategy of reaching the inflationary goal was executed by the National Bank of Poland under conditions of a liquid exchange rate, shaped by market processes.

The exchange rate of PLN weakened significantly in 2002, both in nominal and effective terms. **The nominal exchange rate of the Polish zloty in relation to the “basket” of currencies most relevant for the Polish economy** dropped by 3.9% during 2002, compared to increases in the two previous years: by 1.5% in 2000 and by 9.0% in 2001. The effective rate, deflated with the PPI index, dropped by 4.0%, whereas in 2000 it grew by 6.0% and in 2001, by 7.7%. The exchange rate of zloty against the euro played the most important role. Over 60% of Poland’s commercial transactions are denominated in euro.

The average annual depreciation of the nominal exchange rate of PLN to the euro in 2002 reached 5.1%, whereas in 2001 it increased by 8.5%. The nominal exchange rate of zloty to the US dollar appreciated slightly, by 0.4%.

## 19.5. Results of the monetary policy of the National Bank of Poland

In 2002, the average annual inflation in Poland amounted to 1.9%. This was a lower level than the average across countries of the European Union, where it reached 2.1%. From among the 15 member countries of the EU, inflation rate lower than in Poland was found only in five countries: in Germany (1.4%), in Finland (1.5%), Belgium and Great Britain with 1.6% and Austria with 1.8%. Among the candidate countries, only two had lower inflation rate than Poland: Lithuania with 0.3% and the Czech Republic with 1.8%.

According to the assessment of the National Bank of Poland, the process of inflation reduction in Poland has already ended<sup>3)</sup>. This creates new conditions for monetary policy, as its main goal should now be to stabilize inflation at the current low level. This allows to abandon the formula of setting annual inflation goals, defined for the end of every calendar year. The focus now should be the achievement

<sup>3)</sup> See Report on inflation in 2002, NBP, MPC, Warsaw, June 2003, s. 7.

of the constant goal, which in the “**Strategy of monetary policy after 2003**”, published in March 2003, was defined as 2.5% p.a., with possible variance of +/- 1 percentage point.

The reduction of inflation was the primary reason for the reductions of basic interest rates of the NBP by the Monetary Policy Council, which was a way for influencing actual economic processes. However, the transmission of the monetary policy of the NBP into the actual economy did not proceed unhindered. The reaction of the economy to the inflationary impulses and changes in the basic interest rates of the NBP was limited, for many reasons.

First of all, the decisions of the Monetary Policy Council – introducing the gradual and small reductions of the interest rates of the NBP – did not provide the desired stimulus for accelerating economic growth. From the perspective of interest rates of the central bank, Poland is still among the countries with the highest effective interest rates. The level of effective interest rates in Poland is the highest among the candidate countries for the EU from Central and Eastern Europe – despite the fact that such countries as the Czech Republic, Slovakia or Hungary are placed in the same group of investment risk by the international rating agencies. The reference lending rate of the NBP – the most important one from the market’s perspective – amounted to 6.75% at the end of 2002. During that same period, the European Central Bank offered 2.75%.

The reductions of the basic interest rates of the NBP are not directly reflected in changes of **interest rates on deposits and credits at commercial banks**. The changes of interest rates offered by the banks – especially interest rates charged on credits – are made much later than the changes in the basic interest rates of the NBP. The banks first lower the interest rates on deposits, and to a much larger extent than on credits. In this situation, **the disparity of the interest rates on deposits and credits still remains very high, and shows a tendency to grow**.

It is much larger in the case of interest rates on deposits and credits of households.

At the end of 2002, the average effective interest rate on term deposits of individuals (12 month deposits) was set at 3.8%, while the average interest rate on credits amounted to 16.6%. In the period from March to December 2002, the average interest rate on term deposits of individuals dropped by 0.3 percentage point. Meanwhile, the effective interest rate charged on PLN denominated credits for individuals rose by 1.9 percentage point. The difference between effective

interest rates on credits and on deposits of individuals became even larger (see the data in Table 76).

**Table 76. Nominal and effective interest rates on term deposits and credits in 2002**

Description	Average weighted interest rate on deposits and credits denominated in PLN in the Polish banking system						Change in percentage points Dec – March 2002
	2001	2002					
	Decem-ber	January	March	June	Septe-mber	Decem-ber	
<b>Nominal interest rates</b>							
PLN deposits of individuals/households							
– Demand deposits (in current accounts)	2.40	2.40	2.50	1.90	1.60	1.20	-1.3
– term deposits – 12 months	8.00	7.90	7.50	6.40	5.40	4.60	-2.9
PLN deposits of business entities							
– current	1.60	1.40	1.30	0.90	0.60	0.40	-0.9
– term deposits – 12 months	7.60	8.50	7.60	6.50	5.50	4.40	-3.2
PLN-denominated credits for:							
– individuals (households)	20.8	20.8	18.5	18.1	17.8	17.5	-1.0
– business entities	15.7	15.1	13.4	12.5	11.5	10.6	-2.8
Growth of price indexes (compared to the same period of the previous year):							
– Consumer Price Index	103.6	103.4	103.3	101.6	101.3	100.8	-2.5
– Producer Price Index	100.3	100.0	100.3	101.2	101.1	102.2	1.9
<b>Effective interest rates<sup>x)</sup></b>							
Term deposits of individuals	4.2	4.3	4.1	4.7	4.0	3.8	-0.3
Term deposits of individuals	7.3	8.5	7.3	5.2	4.4	2.2	-5.1
PLN-denominated credits for:							
– individuals (households)	16.6	16.8	14.7	16.2	16.3	16.6	1.9
– business entities	15.4	15.1	13.1	11.2	10.3	8.4	-4.7
Difference in effective interest rates on credits and term deposits:							
– of individuals (households)	12.4	12.5	10.6	11.5	12.0	12.8	2.2
– for business entities	8.1	6.6	5.8	6.0	5.9	6.2	0.4

<sup>x)</sup> the deflators used to determine effective interest rates are: for deposits and credits of individuals (families) – the Consumer Price Index; and for deposits and credits of business entities – the Producer Price Index.

*Note:* Due to changes in methodology, introduced in March 2002 into the statistics of interest rates, it is not recommended to compare directly the interest rates before and after that date. In March 2002, some of small enterprises were added into the “households” category. Data in Table 2 regarding the period until February 2002 present interest rates on credits for individuals; and as of March 2002 – for households.

*Source:* Data of the CSO and NBP; and own calculations.

The decrease of effective interest rates on term deposits for business entities was deeper than on deposits of households. On the other hand, business entities profited from the lower, and constantly decreasing, effective interest rate on zloty-denominated credits. This translated into a lower disparity of the interest rates on deposits and credits in the case of enterprises, and a smaller scale of its growth in the period from March to December 2002 (by only 0.4 percentage point).

The lack of cohesion between the changes of interest rates on credits offered by commercial banks, and the changes of interest rates of the central bank, observed in 2002, was due to many factors. These included: very high supply of Treasury bonds whose purchase by the banks caused private investments to be "pushed out"; large proportion of foreign credits in the banks' credit portfolios; and the uncertain perspectives for economic development, which caused the banks to be very cautious in their evaluation of investment projects.

As the effective interest rates on credits remained high and were difficult to access, the demand for credits dropped significantly in 2002. The annual growth rate of credits for households went down from 14.7% in December 2001 to 8.6% in December 2002. This was due not only to the price of credit, but also to the worse revenue perspectives of households, due to the difficult situation in the labor market.

The annual growth rate of credits for businesses was near 0 in 2002. According to the opinion of the banks, this was due to poor credit capacity of enterprises, and a significant degree of under-utilisation of their production abilities.

The enterprises financed their operations not only with credits obtained from the Polish banking system, but also from issues of debt securities, and from credits contracted abroad. The value of bonds issued by enterprises in 2002 rose by 79%, and reached 4.5 billion PLN at the end of 2002. This represented 12.4% of the total debt of enterprises in the banking sector.

Foreign debt of enterprises (expressed in US dollars) amounted to 38,777 million USD at the end of 2002. It rose by 3,428 million USD (9.7%), compared to the situation at the end of 2001. The basic reason for the attractiveness of foreign credits in 2002 were the interest rates, which were lower than interest rate on PLN – denominated credits, granted by Polish commercial banks.





## Chapter 20

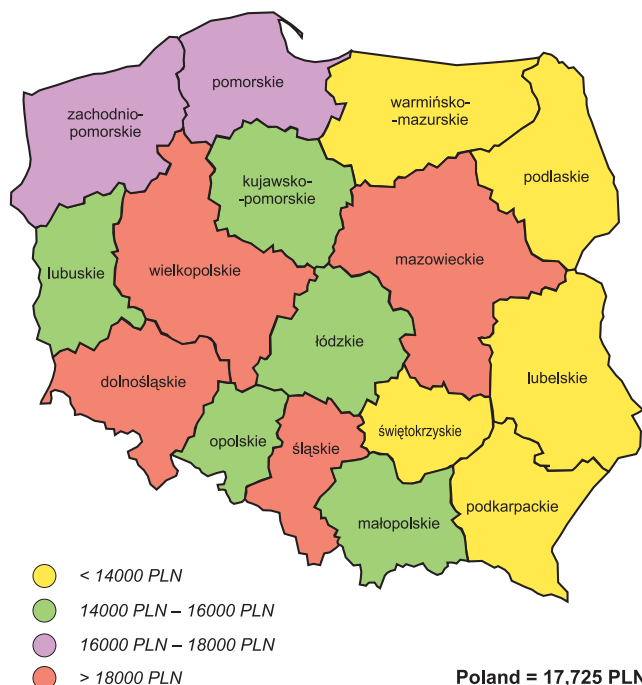
# DIFFERENCES IN ECONOMIC DEVELOPMENT IN THE PROVINCES

## 20.1. Gross Domestic Product

The Gross Domestic Product, produced in the given region, is treated as the indicator of this region's economic development. The GDP per capita on the province level (level NTS II) shows significant geographical differentiation. The highest level of GDP is observed in those provinces, where the social and economic centers of the country are located: the Mazowieckie province (151.6% of the country average); Silesian province (110.1%) and Wielkopolskie (106.6%).

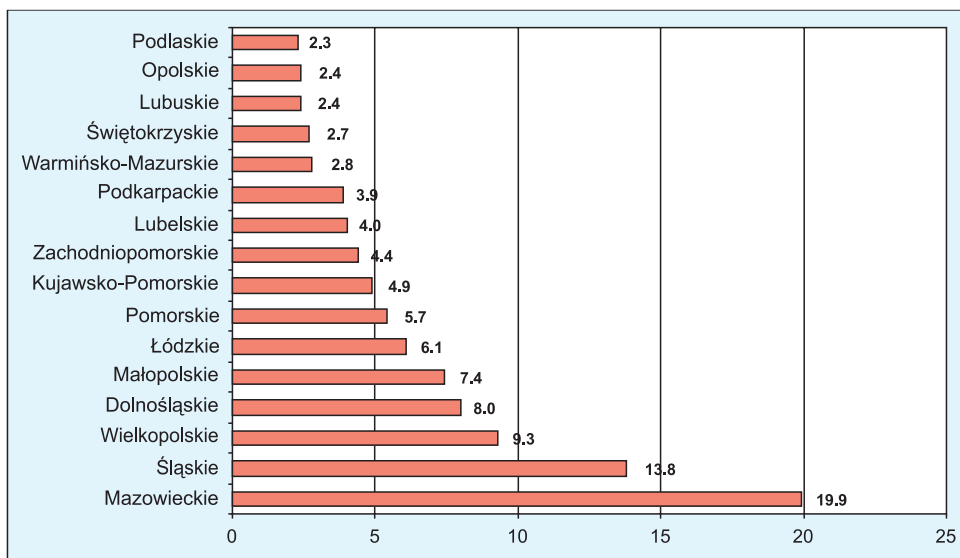
The lowest level of economic development is found among provinces located along Poland's eastern border, in five provinces: Lubelskie, Podkarpackie, Podlaskie, Świętokrzyskie and Warmińsko-Mazurskie.

**Chart 44. GDP per capita in 2000, per province**



Source: Statistical yearbook of the provinces, CSO, 2002.

**Chart 45. Gross Domestic Product in 2000**



*Source: Statistical yearbook of the provinces 2002, CSO*

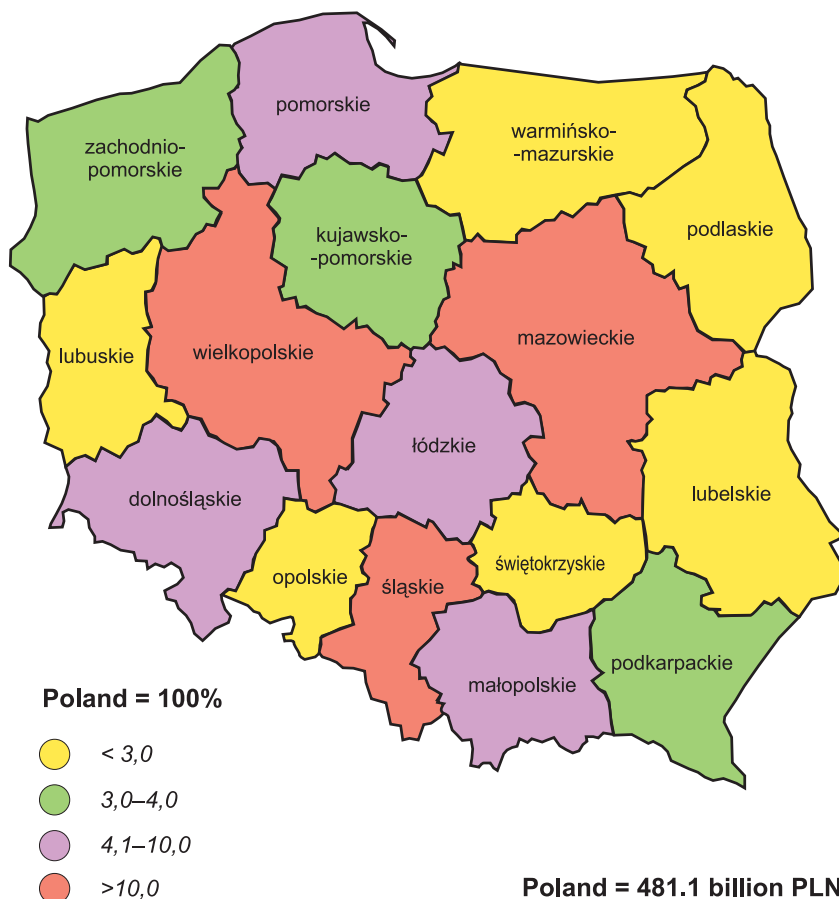
Analyses of the Eurostat<sup>1)</sup>, regarding the level of GDP per capita for regions defined as NUTS II of the European Union and of the candidate countries in 2000 show that GDP per capita in Poland reached 38.9 (given that EU 15 = 100). The strongest Polish province – Mazowieckie Province (64.9% of EU average) – has a GDP level only slightly higher than the poorest regions of Greece: Ipeiros (51.9%); Dytiki Ellada (56.3%); of Spain – Extremadura (58.4%) and of Portugal – Acores (57.0%). The Silesian province, the second strongest in Poland, achieved level of GDP per capita equal to 47.1% of the EU average – lower than the levels in the poorest regions of the European Union.

<sup>1)</sup> Commission Communication, First progress report on economic and social cohesion, Brussels, 30.01.2003.

## 20.2. Sold output of the industry and construction sectors

### 20.2.1. Industry

Chart 46. Sold production of the industry per provinces in 2002, in percentage



Source: Statistical yearbook of the provinces 2002, CSO, Warsaw 2003.

In 2002, the sold output domestic industry (enterprises with more than 9 employees) amounted to 481.02 billion PLN (in current prices).

A decline in the sold industrial output was registered in 7 provinces, compared to the result of 2001. The largest decreases were found in the Zachodniopomorskie (91.6%), Podkarpackie (95.1%), Świętokrzyskie (97.3%) and Łódzkie (97.6%) provinces. In ten provinces, the sold industrial output rose slightly, and the largest

increases were found in the following ones: Małopolskie (106.8%), Lubelskie (104.7%) and Pomorskie (104.1%).

The highest value of industrial output was achieved by these Provinces, where the level of GDP is the highest: Mazowieckie, Śląskie and Wielkopolskie. These three provinces have achieved 48.9% of the total value of sold industrial output.

The Lubuskie, Świętokrzyskie and Podlaskie have had the smallest share in the value of industrial output of the country. They have generated only 6.0% of the domestic production.

### 20.2.2. Construction

In 2002, the value of sold output of the construction sector (enterprises with more than 9 employees), calculated in current prices, amounted to a total of 69.37 billion zloty, which was 9% less than in the previous year. An increase of production in the construction sector was registered only in the Podlaskie province (102%, compared to the same period of the previous year). A decrease of production has been registered in the 15 remaining provinces, and the largest in the Lubuskie (67.3%) and Kujawsko-Pomorskie (80%) provinces.

The concentration of the sold production of the construction sector was similar as in the case of industrial production. More than half of the total production was realized by the three best developed provinces: Mazowieckie (27.7%), Śląskie (14.0%) and Wielkopolskie (11.1%). Their joint share in the total output of the domestic construction sector reached 52.8%.

## 20.3. Agriculture

In Poland, **the agriculture** sector is more important from the economic and social perspective than in many countries of the Western Europe. There are regions where agriculture is one of the main areas of the economy, determining the level of development and standard of living of the inhabitants.

The share of agriculture (including forestry and hunting) in the total domestic gross value added reached 3.8% in 2002. The share was the highest in the Podlaskie province – 7.3% of the total gross value added generated in the region, and in Warmińsko-Mazurskie (6.8%). In the Śląskie province, it was the lowest, at 1.7%.

The gross value added produced in agriculture (including forestry and hunting) per 1 employee was the highest in the Zachodniopomorskie (13,045 PLN),

Warmińsko-Mazurskie (10,088 PLN) and Lubuskie (10,057 PLN) provinces; and the lowest in the Podkarpackie province (2,127 PLN).

The largest number of employees of the agriculture sector in rural areas was found in the Podlaskie province (31.9%) and the smallest in the Śląskie province (9.3%). The average ratio of persons working in the agriculture sector to the total number of employees in the countries of the EU amounts to 4.5% (it is the highest in Greece, 17%; and the lowest in Great Britain – 1.6%)<sup>2)</sup>.

## 20.4. Average employment in the enterprise sector<sup>3)</sup>

In 2002, the average employment in the enterprise sector was lower by 4.4% than in the previous year. A decrease has been registered in 15 provinces, and the largest in the Świętokrzyskie (11.9%), Lubuskie (10.2%) and Opolskie (8.2%) provinces. The exception is the Mazowieckie province, where the average employment in the enterprise sector rose by 10.2%.

The highest employment in the enterprise sector in 2002 was registered in the Mazowieckie (1,011.7 thousand persons – 21.3% of total employment in the country); Śląskie (762.3 thousand persons) and Wielkopolskie (471.0 thousand persons). These three provinces control 47.2% of all the employed in the enterprise sector.

The average employment in **the industry sector** (entities with more than 9 workers) reached 2,481.5 thousand persons, that is 52.14% of all employees in the enterprise sector. The largest concentration of employment was found in the Śląskie province (18.2% of all industry employees) Mazowieckie (14.1%) and Wielkopolskie (10.7%). These three provinces together employed 106.6 thousand people – 43% of all employees of industry sector. The lowest concentration was found in the Podlaskie, Opolskie, Lubuskie and Świętokrzyskie provinces: a total of 230.8 thousand people, which constitutes 4.8% of all industrial employees.

In 2002 **the construction sector** employed 421.6 thousand persons, which constituted 8.9% of all employees in the country. The regional concentration of

<sup>2)</sup> Operational Programme for Sectors – Restructuring and Modernisation of the Food Sector and Development of Rural Areas 2004–2006, Warsaw 2003.

<sup>3)</sup> Data regarding the average employment refers to entities of the national economy with more than 9 employees; and it does not include employees of the State Railways (PKP S.A.), the Polish Post ("Poczta Polska") and operators of the public telephone network.

employment in the construction sector was similar as in the case of industry and the whole enterprise sector. The largest number of people worked in the Śląskie province (81.5 thousand persons), and the smallest in the Podlaskie province (7.5%)

## 20.5. Unemployment rate

The total number of unemployed and the rate of unemployment increased at the end of 2002, compared to the same period of the previous year, on both the country-wide scale and in individual provinces. The number of unemployed registered in labor offices at the end of December 2002 reached 3,217 thousand persons. Compared to the status at the end of 2001, this was an increase of 102 thousand persons. The unemployment rate amounted to, respectively, 18.1% and 17.8%. A slight improvement was registered at the end of June 2003.

**Table 77. Unemployment rate in provinces (%)**

Province	31.12.2002	30.06.2003
Warmińsko-Mazurskie	28.8	27.9
Zachodniopomorskie	26.4	25.9
Lubuskie	25.9	25.7
Kujawsko-Pomorskie	22.6	22.3
Dolnośląskie	22.5	22.2
Pomorskie	21.2	21.2
Opolskie	19.3	18.8
Łódzkie	18.5	18.3
Świętokrzyskie	18.5	17.9
Śląskie	16.5	16.6
Podkarpackie	16.9	16.2
Wielkopolskie	16.1	15.9
Lubelskie	15.8	15.3
Podlaskie	15.2	14.5
Mazowieckie	13.9	13.8
Małopolskie	13.9	13.7
POLAND	18.1	17.8

Source: Statistical Bulletin of the CSO, December 2002 and June 2003.

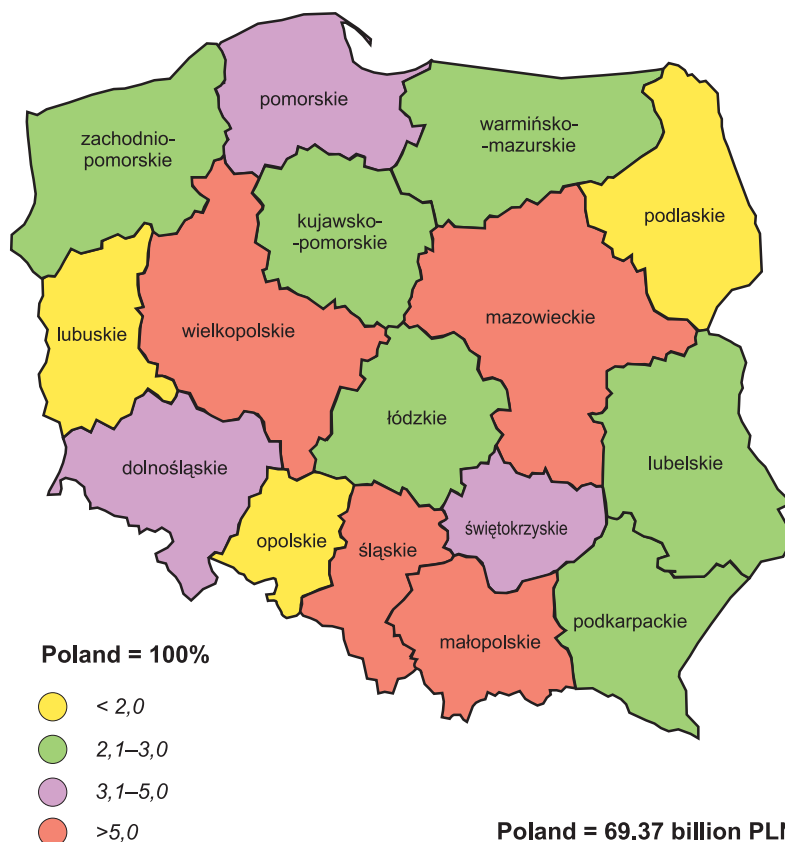
## 20.6. Investment

According to preliminary data, the level of investment outlays in 2002 was lower by 10%, compared to the previous year.

A high investment dynamics (measured in current prices), much higher than the national average (83.4% of the result of the previous year) was observed in the Śląskie and Opolskie provinces. A low investment ratio was seen in the Mazowieckie and Lubelskie provinces.

In 2002, 51% of the total domestic investment outlays concentrated in the Mazowieckie and Śląskie provinces. 35% of total investment outlays was located in six provinces: Łódzkie, Małopolskie, Pomorskie, Dolnośląskie and Wielkopolskie. The remaining provinces received about 14% of total investment outlays.

**Chart 47. Dynamics of investment outlays of enterprises in 2002, compared to 2001**



Source: Information on the social and economic situation in the provinces no. 4/2002, Central Statistical Office, Warsaw 2003.





## DEFINITIONS OF CONCEPTS AND TERMS

**AVERAGE EMPLOYMENT** – includes full-time and part-time employees on contracts, after the conversion of figures to full-time employees.

**BROKERAGE OFFICE** – an entity of a bank, separated in terms of organisation and financial management, which is involved in brokerage of securities.

**BROKERAGE HOUSE** – an entity involved in brokerage activities, which is not a bank.

**CLOSED-END INVESTMENTS COMPANY** – a fund which issues a limited number of shares at a time which contrary to open investments companies are not redeemed but are subject to a stock-exchange turnover.

**COMPANY'S BOOK VALUE** – a balance value of company's own capital.

**COMPANY'S MARKET VALUE** – a product of the number of shares issued by a company and their stock-exchange rate.

**CN** – a list of brand names in the foreign trade; since 1994 it has been the Polish list of brand names (PCN).

**CONVERTIBLE BOND** – a bond which entitles its owner to exchange it for shares issued by a bond issuing company.

**CURRENT ASSETS** – include stock, liabilities and claims securities earmarked for the turnover, financial resources and active interim settlements.

**DEBENTURE** – a security with usually fixed interest rate, which can be traded on the stock exchange, and states the obligation of a mortgage bank to pay to its bearer a specific sum of money at a pre-defined time; and to pay interest on this sum, in the amount and dates defined in the contract. Issue of debentures, guaranteed by the bank with its own assets, is for the mortgage bank a source of capital, which is later on-lent to investors who execute investment projects, with mortgage lien.

**DERIVATES, DERIVATE PRODUCTS** – assets (particularly securities) the value of which depends upon another financial basic instrument (underlying).

**DIRECT INVESTMENTS** – investments in the case of which the intention of carrying out an economic activity and attaining profits from it is decisive. As a rule they are long-term investments and have its material expression.

## **ECONOMIC GROUPS:**

**EU (European Union)** – Austria, Belgium, Denmark, Finland, France, Greece, Spain, Ireland, Luxembourg, The Netherlands, Germany, Portugal, Sweden, Great Britain, Italy

**CEFTA (Central European Free Trade Agreement)** – Bulgaria, Czech Republic, Poland, Romania, Slovakia, Slovenia, Hungary

**EFTA (European Free Trade Agreement)** – Iceland, Liechtenstein, Norway, Switzerland

**OECD (Organisation of Economic Cooperation and Development)** – countries of the European Union and Australia, the Czech Republic, Iceland, Japan, Canada, South Korea, Mexico, New Zealand, Poland, USA, Switzerland, Turkey, Hungary

## **FINANCIAL RESULTS/BALANCE**

- 1) from the sale of products, goods and materials – the difference between the proceeds generated from the sale of products, goods and materials and deductible costs,
- 2) from the economic activity – the sum of the financial result from the sale of products, goods and materials, other operational activities and financial operations,
- 3) the balance of profits and extraordinary losses (the result of extraordinary operations) – the difference between the extraordinary profits obtained and the extraordinary losses incurred,
- 4) the gross financial result (profit or loss) – the result of the economic activity corrected with the balance of profits and extraordinary losses,
- 5) obligatory charges on the gross financial result – these include an income tax from legal and natural persons and payments connected with it on the grounds of separate legal regulations,
- 6) the net financial result (profit or loss) – obtained after the deduction of obligatory charges from the gross financial result.

**FINANCIAL FUTURES** – type of stock market transactions, in which the parties make an obligation to deliver or to collect specifically defined, in terms of quantity or quality, financial instruments; at a pre-defined future date and for pre-determined price. The objects of such transactions include mainly foreign currencies, securities and bank deposits with fixed interest rates.

**FIRST DEGREE LIQUIDITY** – the relation of the sum of financial resources and short-term securities earmarked for the turnover to the sum of short-term liabilities (the desirable level – 0.20 or above 20%).

**FIXED QUOTATIONS** – quotations in which each transaction is contracted according to an individual price. It means that each purchase and sale affect the price level.

**FIXING** – the mode of establishing an exchange rate by the National Bank of Poland, which in the afternoons accepts purchase and sales orders for foreign currencies from commercial banks and on their basis establishes official price of zloty against world currencies.

**FOREIGN DIRECT INVESTMENT (FDI)** – investment made in order to attain a permanent influence on the activities of an enterprise in another country, and thus on its management.

**GROSS TURNOVER PRODUCTIVITY INDEX** – the relation of the gross financial result to the proceeds from the overall activity.

**ISO – International Standard Organisation** – an international non-government organization, with seat in Geneva, established in 1947. Its goal is to promote and create standards in various areas of scientific, technical and business activity.

**ISSUER** – an entity which issues shares or bonds.

**INNOVATION, INNOVATIVE** – ability and motivation among entrepreneurs to continuously seek and use in practice the results of scientific research and development work, of new concepts, ideas and inventions; as well as the improvement and development of existing production, maintenance and service technologies.

**INTERNATIONAL MONETARY FUND (IMF)** – an international financial organisation, whose tasks include primarily: support for international cooperation in the field of foreign currencies and organised foreign currency relations; creation of conditions for multi-lateral settlement of liabilities for current operations in international trade; assistance in the liquidation of payment difficulties; influencing the maintenance of desired liquidity level of international payment systems; undertaking actions supporting the organised development and growth of international trade.

**LEVEL OF COSTS INDEX** – the relation of the costs of generating the proceeds from overall activities to the proceeds from the overall activities.

**LEVEL OF LABOUR CONSUMPTION IN PRODUCTION** – the relation between gross wages and the production sold.

**LEVEL OF MATERIAL CONSUMPTION IN PRODUCTION** – the relation of material costs (including energy) to the value of the production sold.

**LOMBARD CREDIT, REDISCOUNT CREDIT** – credits given by the central bank to commercial banks.

**MUTUAL FUND** – a portfolio of securities which is owned by a group of investors. Participation units are not subject to a stock-exchange turnover but are bought directly from the fund and their resale equals their redemption.

**NATIONAL INVESTMENT FUNDS (NIF)** – 15 investment funds, established in 1995 by the State Treasury under the National Privatisation Programme. They operate as joint stock companies. The assets of the NIF consist of shares in former state-owned enterprises, transformed into companies and contributed into the Funds by the State Treasury.

**NET ASSET VALUE (NAV)** of trust fund – the price of a fund share after the deduction of its cost. The funds in which there is a charge at the sale of shares give two prices – offering price which includes NAV and charges taken from investors who buy shares, and a sales price which equals the value of net assets achieved by a broker at the moment of a share repurchase, or in non-exchange market terms – assets after deduction of liabilities.

**NET TURNOVER PRODUCTIVITY INDEX** – the percentage relation of the net financial result to the proceeds from the overall activity.

**NUMBER OF EMPLOYEES** – full-time and part-time employees in their main place of work. The following groups have been included:

- 1) employees employed on the grounds of employment contracts,
- 2) owners and co-owners of businesses including family members who help them,
- 3) those employed in a cottage industry,
- 4) agents and people hired by them,
- 5) members of agricultural co-operatives.

**OPEN-MARKET OPERATIONS** – activities of the central bank, including the purchase or sale of government securities, mainly treasury bonds, in order to regulate the supply of credit money in the economy, through limiting or extending the credit capacity of commercial banks.

**OVER-THE-COUNTER MARKET** – an organised group of brokers involved in bilateral securities turnover on an off-floor basis. This market in Poland is called Centralna Table Ofert – CTO, i.e. the Central List of Offers.

**PARALLEL MARKET** – the market on which the shares of such partnerships are listed which do not satisfy the primary market requirements but which due to the issue size ensure the smooth flow of the capital.

**PORTFOLIO INVESTMENTS** – investments into stocks and long-term bonds of capital markets and also securities of mutual investments. The basic aim of portfolio investments is execution of profits mainly in turnover of securities and derivative instruments on financial/capital markets; basically investments of short-term nature.

**PRICE EARNINGS RATIO -P/E** – a quotient of the market price of a share and the company's profit for one share.

**PRICE/BOOK VALUE (P/BV)** – a quotient of the market price of a share and the company's book value for one share.

**PRIMARY MARKET** – the market where shares of such partnerships are listed which meet specified requirements referring to the capital and the minimum existence time.

**PRIVATE SECTOR** – business units owned privately by home owners (among others: partnerships, co-operatives, one-man businesses, social organisations associations and foundations), businesses owned by foreign owners (small foreign manufacturers, companies with the sole participation of foreign capital) and businesses of mixed ownership with the majority of capital belonging to a private sector.

**PRODUCTIVITY INDEX** – (with no further qualifications) – the percentage relation of the financial (gross or net) result to the proceeds or the costs of generating the proceeds.

**PRODUCTIVITY OF CURRENT ASSETS** – the relation between the proceeds from overall activity and active assets.

**PROFITABILITY** – proceeds achieved from the overall activity which exceed the cost of carrying out this activity (negative profitability – suffering a loss).

**PUBLIC SECTOR** – state-owned enterprises, communal enterprises and enterprises of mixed ownership with the predominance of capital belonging to public sector owners.

**PUBLIC SHARE (STOCK) CERTIFICATE** – a bearer's security issued by the State Treasury in accordance with the Act on the National Investment Funds.

## **REGIONAL DIVISION OF THE WORLD**

**Developed countries** – countries of the European Union and EFTA, plus Andorra, Australia, Gibraltar, Israel, Japan, Canada, Malta, Monaco, New Zealand, Republic of South Africa, San Marino, the USA, Vatican, Faroe Islands

**European countries of the former USSR** – Byelorussia, Estonia, Lithuania, Latvia, Moldova, Russia, Ukraine

**Countries of the Central and Eastern Europe** – member countries of CEFTA, European countries of the former USSR and Albania

**Countries of the former USSR** – European countries of the former USSR and Armenia, Azerbaijan Georgia, Kazakhstan, Kirgistan, Tadzykistan, Turkmenistan, Uzbekistan

**ROA** – a profitability index (the relation between a net profit and company's own capital x 100).

**SAD** – Standard Administration Document, i.e. customs clearance certificate.

**SECOND DEGREE LIQUIDITY** – (quick ratio, so called "strong test") the relation of the sum of financial resources, short-term securities earmarked for the turnover, dues and claims to the short-term liabilities (the desirable level – 1.0–1.2 or 100–120%).

**SECTOR** – in the Report the term "Sector" is used in reference to different forms of ownership (public sector, private sector) as well as to a group of enterprises selected according to their field or the type of unit. The largest group of sectors is defined according to the European Classification of Activities or is a sum of groups or classes. The defence sector which comprises 31 units is an example of a sector classified by unit.

**SITC** – Standard of International Trade Classification – the trade classification of exports and imports used in the international statistics by the United Nations Organisation.

**SUBSCRIPTION RIGHT** – the right of a shareholder to purchase new shares when the company is enlarging its capital. Most often, subscription right is allocated on a proportional basis – the owner of one 'old' share may purchase a specific number of new shares. Shareholders may give up their subscription rights and sell them on the stock exchange.

**STOCK-EXCHANGE CAPITALISATION** – the sum of the market value of all securities listed on the stock-exchange, i.e. securities exchange market.

**THE P/E RATIO** – the P/E ratio shows the relation between the price of shares and net profits per one share. This index is a measure of profitability of the given investment; informs how much is worth 1 PLN of profit generated by the company over the last four quarters of its activity. This value can mean dividend, development capacity of the company and an increase of the value of its stock market listings.

**THE P/BV RATIO** – defines the relation between the price of share to the book value of the assets of the company per one share. This relation defines how safe is the purchase of the given shares, and to what extent the shares have coverage in

the assets of this company. Value over 1 means that the price of share is higher than the book value of assets per one share.

**THIRD DEGREE LIQUIDITY** – the relation of current assets, i.e. the sum of financial resources, short-term securities earmarked for the turnover, dues, claims, stock and interim settlements to the current liabilities including the sum of short-term liabilities (the desirable level -1.2-2.0 or 120-200%).

**UNIFORM QUOTATIONS** – quotations in which a price of a given security is fixed only once every day on the stock-exchange and all transactions are concluded at that price.

**WARRANT** – a financial instrument whose price depends on the value of the so-called base instrument. This instrument may be a security, foreign currency, economic index (such as interest rate). The warrant is an unconditional and irrevocable obligation of its issuer to pay the eligible warrant owners the settlement amount.

**WIG (WARSAW EXCHANGE INDEX)** – it is calculated according to the so-called capital formula, reflecting percentage changes of the companies' market value. It is accepted that the index value during the first session of the Stock-Exchange on November 16<sup>th</sup>, 1991 amounted to 1,000 points.

**WIG-20** – Warsaw Exchange Index of the 20 leading companies on the stock-exchange.

**WIRR (Warsaw Index of the Parallel Market)** – stock market index calculated for the Warsaw Stock Exchange, which includes shares of companies traded in the so-called parallel market.

### GRAPHIC CHARACTERS USED IN THIS REPORT

- a dash (-) – it means that a given phenomenon did not occur;
- Zero (0) – the scale of the occurring phenomenon was lower than 0.5;
- (00) – the scale of the occurring phenomenon was lower than 0.05;
- a dot (.) – it denotes the complete lack of information or lack of reliable information;
- X – it means that a given column or row could not be filled in or is not applicable;
- \*
- it means that data have been changed as compared to those already published;
- Including – it means that not all components of a sum are given;
- ^ – it means that abbreviations are used in comparison to classifications and terminology in force.





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